2002/2003 Annual Report

OFFICE OF THE

Auditor General of British Columbia

2002/2003 Annual Report of the Auditor General of British Columbia

Serving the Legislative Assembly and the People of British Columbia

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of British Columbia

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Sir:

I have the honour to transmit herewith the 2002/2003 Annual Report of the Office of the Auditor General to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 22 of the Auditor General Act. The report is also available on our website: www.bcauditor.com. The printed version of our report will be available in approximately two weeks.

Wayne Strelioff

Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
June 2003

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Auditor General's Message

Wayne Strelioff, CA
Auditor General

I am pleased to present to Members of the Legislative Assembly the annual report of my Office for the fiscal year ended March 31st, 2003.

I have now been Auditor General for three years. In this period, the pace and extent of change to our system of government has been enormous, representing a significant challenge to the capacity of the provincial public sector to manage responsibilities and resources effectively.

The government's relentless challenge of the status quo is leading to new ways of managing and delivering public programs and services. Underlying this challenge is a strong desire by the government to make decisions and evaluate alternatives based on clear information on costs and on the results to be achieved.

At the same time, elected representatives are strengthening the means by which they carry out public scrutiny of the performance of government. These changes are also significant and represent leading practices within Canada. They include directing the government to:

- present its annual financial plan in February of each year;
- publish service plans for each government organization on the same day it presents its annual financial plan;
- publish service plan reports in a timely manner;
- implement fully generally accepted accounting principles in preparing its financial plans and reports; and
- focus its plans and reports on the results to be achieved.

In addition, legislators are establishing a more robust system of standing committees to scrutinize in public the major programs and services delivered by government.

More recently, legislators put in place a new Auditor General Act to strengthen our working relationship and to broaden and more clearly define my authorities and responsibilities.

Under the new Act, for example, legislators rather than the government will oversee the system of appointing auditors of the financial statements of government organizations. My Office is expected to examine the adequacy of the accountability information provided by government to legislators and whether non-government organizations are using resources provided by government as intended. In addition, legislators have strengthened my Office's independence from government and my Office's accountability to the Legislature.

I support strongly these changes initiated by legislators. The changes represent essential features of a strong system of accountability. When fully implemented, legislators will have the accountability system required to support a rigorous and objective public scrutiny of the performance of government.

While much is happening within British Columbia, there are also significant changes taking place worldwide within the auditing profession. In response to public concern related to corporate financial failures, my profession is establishing more challenging performance standards for all practitioners.

Key changes to those standards involve auditor communications with those in governance, responsibility in regard to fraud detection, assessments of control systems, independence, and quality control. These changes will have an immediate and long-term effect on the responsibilities and work effort expected of all audit practitioners including my Office.

In this report, I describe the performance of my Office during this past year in terms of our examinations and reports, the results we are working to achieve, and our costs.

In addition to carrying out our examinations and reports on specific aspects of government performance, we made good progress during this past year on several significant long-term issues. The progress required strong working relationships between officials of government and my Office.

For example, the government, during a year of significant restructuring, provided legislators with more timely financial performance reports, and is making good progress on the full implementation of generally accepted accounting principles.

The government is accepting our advice to adopt sound general principles for performance reporting based on proposals established nationally. Those principles are now used by many government organizations (and my Office) when deciding how best to report on planned and actual performance.

During the next three years, significant progress can take place to build a strong system of accountability for government. I plan to do what I can to convince legislators that such progress is worthwhile, requires a fully resourced and supported Auditor General, and is an essential ingredient to public confidence in our institutions of government.

I continue to be grateful to the group of dedicated professionals within my Office. Together, we strive to make a difference for the people of British Columbia by providing relevant, credible, independent assessments and advice to enhance government accountability and performance

Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
June 2003

Key Achievements

Attesting to the Reliability of Government Financial Statements

In September 2002, we issued our second report in two years on *Monitoring the Government's Finances*. In January 2002, we tabled a similar report, urging the government to use an appropriate framework of financial information to better explain the state of its finances. In that report, we again examined the government's explanation and analysis of its finances, and concluded that simpler, more complete information is needed to help legislators and citizens interpret this data.

In March 2003, we issued a two part report titled *Adopting Best Practices in Government Financial Statements–2001/2002*. The purpose of the first part of the report was to bring Members of the Legislative Assembly and the public up to date on government's progress in adopting Canadian Generally Accepted Accounting Principles (GAAP) in both accounting and reporting. The second part of the report includes our assessment of a major computer operating system, or platform, called MVS. This platform supports many of the government's important financial and operational systems.

Assessing the Quality of Government Service Plan Reports

In January 2003, we released *Building Better Reports: Our Review of the 2001/02 Reports of Government*. This is the second time we have issued this annual report on the performance reporting practices of government organizations. Our previous report, *Building Better Reports: Public Performance Reporting Practices in British Columbia (2001)*, allowed us to gain an understanding of the quality of reporting being carried out by government, and to establish a baseline for reviewing reports in future years.

There were three significant differences between the January 2003 report and the one we issued last year. The first is that we doubled the number of annual reports we reviewed. The second was that we excluded the service plans of these organizations from the review. The third difference is that we revised our assessment methodology to combine key principles of good public performance reporting with a four-stage learning model.

We concluded that, on average, government's performance reporting overall and for each of the reporting principles is in the Start-up or In Process stage of development (Exhibit 1). In our view, this means that the annual reports do not yet contain sufficient, appropriate information to allow for a full appreciation or assessment of government's performance.

Examining the Management of Key Risks Within Government Programs and Services

In April 2002 we released *Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service*. This reported on our assessment on the four key factors that affect the ability of the provincial government to deliver quality services to British Columbians: executive leadership, employee engagement, organizational culture, and performance management.

Much of our assessment was based on a survey we sent to over 6,000 provincial government employees, and for which we had a 74% response rate. Our overall conclusion was that significant changes to improve the work environment are needed to meet the service expectations of British Columbians.

Exhibit 1

Overall assessment of the average stage of development of all government annual reports[1]

Stage of Development	Performance Reporting Principles					
	Focus on a few critical things	Linking goals and achievements	Linking resources and results	Capacity risk, other factors	Comparative information	Disclosing key reporting judgements
Fully Incorporated						
Fundamentals in Place						
In Process	◆	◆			◆	
Start-up			◆	◆		◆

[1]Includes 40 of government's annual reports. See Appendix B of the *Building Better Reports: Our Review of the 2001/02 Reports of Government* report for a complete list.

Source: Compiled by Office of the Auditor General of British Columbia

Over the summer of 2002, we issued two unplanned reports. One was titled *Response to a Request Contained in a Ministerial Statement by the Minister of Competition, Science and Enterprise to the Legislative Assembly on May 14, 2002.* We were asked to review the governance and risk management issues related to an agreement between the government and the Working Opportunity Fund (EVCC) Ltd. (WOF). After a preliminary examination, we concluded that a more detailed review was not necessary.

The second report of a special nature was *A Review of Financial Management Issues in the Office of the Police Complaint Commissioner.* We undertook this review in response to ongoing allegations of possible financial improprieties that were being raised in public. Although we found no evidence of improper purpose in financial transactions of the Police Complaint Commissioner, we did conclude that important performance standards and practices that all public officials are expected to meet and follow were not adhered to.

Managing Contaminated Sites on Provincial Lands was issued in December 2002. Contaminated sites are a legacy of the province's industrial past, when awareness of environmental and health impacts were less known and the economy operated with fewer regulations. Through its own operations and by inheriting sites the private sector has abandoned or is financially unable to manage, the government has become responsible for managing an extensive inventory of contaminated sites. Many of these sites pose serious risks to the environment and to human health. They can also create significant economic and financial costs if not managed properly. We concluded that major changes are needed in how the province manages its contaminated sites, and we made a number of recommendations for improving the situation.

Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games was issued in January 2003. This review was a significant undertaking for the Office in terms of the resources required to complete it, the tight timeline, the significant public interest in the topic, and the potential impact of our findings.

We concluded that the Bid Corporation's approach to preparing the bid estimates was reasonable. We also noted, however, that keeping costs in line will need first-class management, contingency amounts must be watched carefully, and the predicted revenues and economic impacts will only come about through well-funded and well-managed marketing of both the Games and the rest of BC.

Our last report for the fiscal year was issued in February 2003, when we released the governance review entitled *A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia.* In July 1999, new legislation resulted in the devolution of control over public sector pension plans and the establishment of joint management agreements between government and other stakeholders, including the unions that represented the plan members. The purpose of our review was to assess whether the government was aware of the risks associated with the new pension plan arrangements, (covering thousands of teachers, college, municipal and public service employees), and whether it was managing those risks adequately. We concluded that the government had adequately identified and managed the risks related to the devolution of the plans, and that it had generally achieved what it wanted to by entering into the new arrangements.

Enhancing Government Accountability and Performance

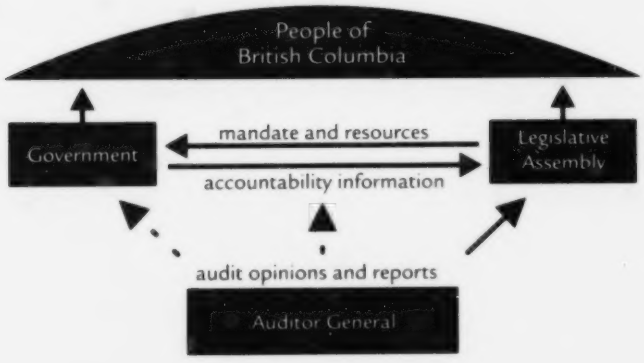
Government today affects the lives of its citizens through a wide range of social and economic activities. For this reason, people have the right to be kept informed about what their government intends to achieve and what it has actually accomplished. Put another way, government must be accountable to its citizens.

The challenge, however, is that government is large and complex, and the results of programs are not always easily measured and explained. Even though the public routinely receives extensive information on government programs and activities, most British Columbians still don't have a clear idea of how well their government is performing at any given time.

Accountability is a relationship between two parties. In the case of government, the contract is between it and the public it serves: the public gives government the responsibility to govern and manage public resources, and the government in turn is accountable to the public through the Legislative Assembly for its performance (Exhibit 2). This concept is fundamental to our democratic system. It establishes the right of a citizen to know what government intends to do and how well it has met its goals.

Exhibit 2

The Auditor General plays a key role in ensuring public sector accountability



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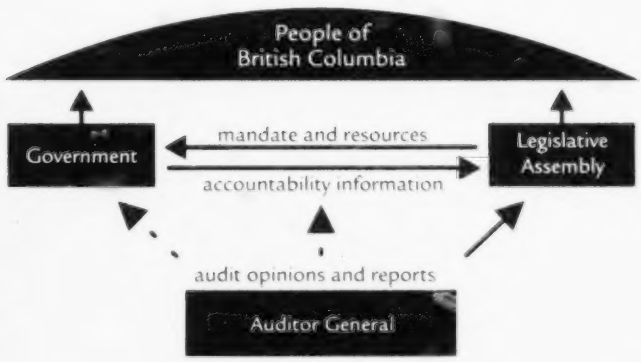


About the Office of the Auditor General

Our Mission

To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance

Our Vision

Making a difference for the people of British Columbia by contributing to accountable and well-performing government

Our Independence

The Auditor General is an Officer of the Legislature, appointed by the Lieutenant Governor on the recommendation of the Legislative Assembly, and is therefore independent of the government of the day. The Auditor General is non-partisan and objective, reporting to the Legislature as a whole on his or her impartial assessments of government accountability and performance.

Our Mandate and Role

Under the authority of the Auditor General Act, the Office is responsible for auditing most of government, including its ministries, Crown corporations and other organizations. In exercising this responsibility, we must be attentive to the needs, expectations and priorities of the Legislature. At the same time, we must remain open, responsive and aware of the needs and expectations of public sector managers so that we can provide sound and practical advice and recommendations for administrative improvement.

Our reports provide assurance to the Legislature on matters relating to past events or practices within the public sector, as well as offer suggestions for improving future public sector performance.

The Office of the Auditor General provides a critical link in the chain of public accountability. This role that's both unique and vital to the democratic process of responsible government. The Office's mission is to assist the Legislature in overseeing the management of public money, by providing independent assessments of, and advice about, government accountability and performance.

Our Standards for Service

The Office of the Auditor General has operationalized its core values into the following standards for service:

Approaching Our Work in a Fair and Constructive Way

- We audit matters that are of significance and interest to those who rely on our work.
- We are impartial and objective in conducting our audits.
- We judge government accountability information and performance against reasonable expectations.
- We base our assessments on the accountability principles or performance standards used by government where these are judged to be appropriate.
- We attest to the fairness and reliability of accountability information provided publicly by government where that information is available and complete.
- We conduct our audits in a way that enables us to provide positive assessments where warranted, and will report the reasons for our reservations where we are unable to provide positive assessments.
- We offer sound, practical recommendations for improving performance.
- We issue our audit reports on a timely basis.

Providing Accurate, Reliable Assessments and Sound Advice

- We conduct our audits in accordance with professional auditing standards, using sound auditing methodologies and techniques.

- We conduct our audits using personnel having the knowledge and competence required for the audit, including a thorough understanding of the type of organization and operations under review.
- We provide reliable, evidence–based assessments and advice, ensuring that our audit criteria or performance standards, findings and conclusions, and advice for improvement are wellfounded and supported.
- We report all matters of significance to those who rely on our work.
- We subject our audit reports, work and methodologies to rigorous quality assurance processes.

Building Strong Relationships

- We are honest and forthright in all of our dealings with those we audit and those who rely on our work.
- We keep all information obtained in the performance of our work confidential, except as required to perform our duties under the Auditor General Act. (The Freedom of Information and Protection of Privacy Act does not apply to the audit records of the Office, including all audit working papers.)
- We communicate openly throughout an audit with management responsible for the matters under review by:
  - meeting with management at the start of an audit to establish a communication plan for the assignment;
  - discussing the terms of the audit assignment with management at the start of an audit, including the objective and scope of our work;
  - discussing our audit plan with management including the audit criteria or performance standards to be used; and
  - discussing with management our findings, analysis, conclusions and draft report.
- We provide management with an opportunity to publish in our report a response to our audit where we have assessed government performance directly.

- We organize our work to allow government staff to participate in our audits with a minimum of disruption to their regular duties.
- We welcome and respond to any comments, suggestions or queries from legislators, the public or government managers.

Setting our Strategic Direction

Each year, as a core part of their business, our audit sector teams obtain and process a large amount of information about international, national and local developments and changes in public sector practices. This environmental scan ensures that the focus of our audits adequately reflects shifts in public sector strategies and operations, including changes in the direction of government policy. Our strategic business planning process also provides a framework against which we can progressively monitor and measure the achievement of our goals. The result of this exercise is confirmation of—or, if necessary, amendment to—our three-year corporate goals and strategic priorities.

Two streams of strategic information flow from this annual process:

- the development of a revised three-year strategic audit plan for each sector; and
- the identification of any organizational issues warranting improvement action.

This analysis leads to a proposed work plan for the coming years. Our Strategic Direction and Funding Proposal is submitted to the Select Standing Committee on Finance and Government Services (the F&GS Committee) in November each year, outlining the proposed work plan and related costs.

The annual Service Plan, published in February each year, incorporates the F&GS Committee's recommendations, confirms our strategic direction and priorities, and outlines in general terms the work program for the next three years. The Annual Report, tabled at the end of June each year, completes this cycle by providing information about the Office's performance for the year, assessed against the Service Plan.

The development and presentation of an annual funding proposal, service plan and annual report to the Legislature, following consultation with the Finance and Government Services Committee, reinforces the special relationship between the Office and the Legislature. It also recognizes that the independence and autonomy granted to the Auditor General by the Legislature needs to be accompanied by well-established lines of accountability back to the Legislature.

The contents of our annual funding proposals, service plans, and annual reports can be accessed on the Office's Internet website at www.bcauditor.com, or by contacting the Office directly using the contact details on the inside front cover of this report.

We Have Three Main Lines of Business

1. Attesting to the reliability of government financial statements

One of the key responsibilities of the Auditor General is to sign the audit opinion for the Public Accounts, which includes most of the government reporting entity. The assurance our Office provides on these financial statements comes from a variety of sources, including: the assurance work our Office does directly, the work of private sector auditors who conduct work on our behalf, and on the work of private sector auditors whose work we rely on in the consolidation of government activities.

2. Assessing the quality of government service plan reports

Government and legislators in British Columbia are committed to public performance reporting. The province's Budget Transparency and Accountability Act—one of the few of its kind in Canada—requires government and government organizations to report publicly in a meaningful and comprehensive way on their performance. However, legislation alone does not guarantee meaningful public reporting and accountability. It requires more than just this. A responsibility of our Office is to support and assist government in building on its experience to make meaningful public performance reporting a reality.

3. Examining how government manages its key risks

Another aspect of our Office's business is providing legislators with assessments of how well government is managing its key risks in delivering programs, services and projects, and of how well government is complying with legislation governing its activities and conduct of business.

We believe this line of business is particularly important now, given that government has been working to implement a significant shift from managing by process to managing for results. To effect this shift, government has embarked on a number of initiatives to revise and improve how government conducts business. The way these initiatives are carried out and the results of these changes will significantly influence the future roles and priorities of the Office.

During this period of change, legislators need assurance that the initiatives and new government programs are being carried out as they were intended. They also need to be fully informed about how government is managing key risks. Our Office provides this assurance and information.

Our Reports

Reports on our work are published throughout the year as they are completed, and are tabled in the Legislative Assembly at the earliest opportunity. We usually report our audit findings in two parts: an overall conclusion and a more detailed and explanatory report. The overall conclusion constitutes the Auditor General's independent assessment of how well the organization has met performance expectations. The more detailed report provides background information and a description of what we found. When appropriate, we also make recommendations in areas where issues are identified.

Our Structure

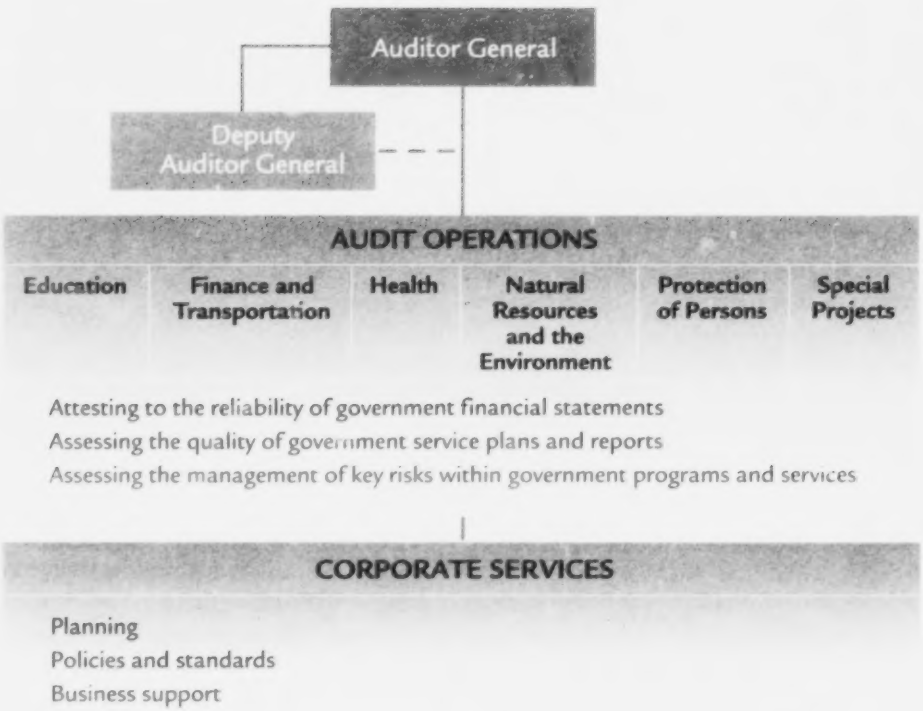
Two years ago, we reorganized our audit resources into five operating groups, each one focusing on a key sector of government (Exhibit 3). We also have resources devoted to special projects, which includes researching matters that need to be addressed

promptly, and taking on new projects. This arrangement allows us to concentrate our knowledge about government programs and services on those five main areas, as well as to keep abreast of current and emerging issues and risks.

We believe that this structure also allows us to better serve the various legislative sectoral committees, especially as sectoral financial and performance reporting becomes a reality.

Exhibit 3

Operations structure in the Office of the Auditor General



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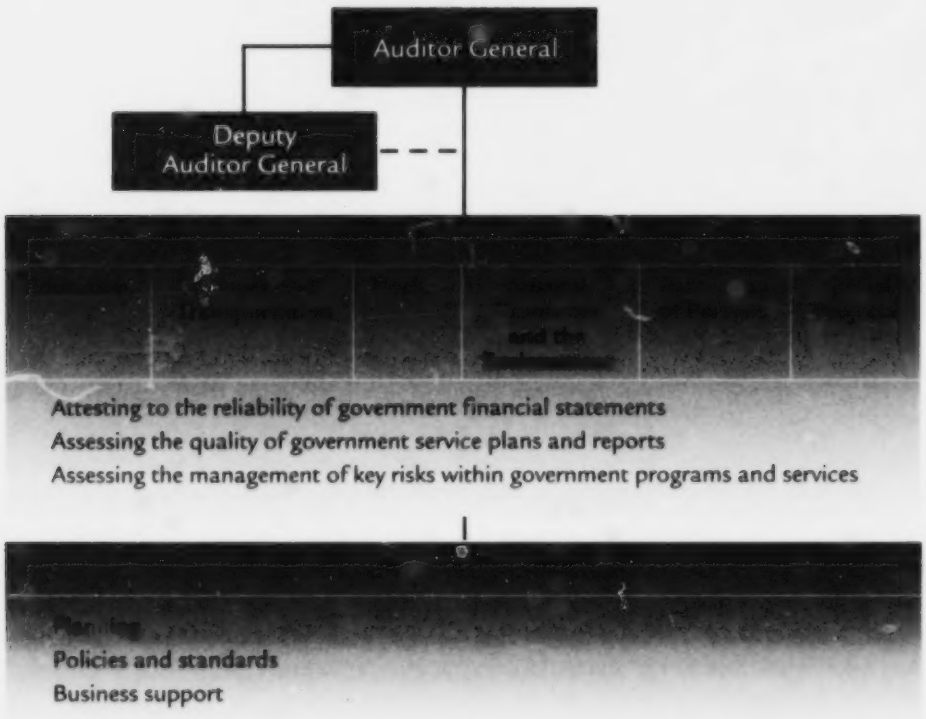

Auditor General
Deputy Auditor General
Attesting to the reliability of government financial statements
Assessing the quality of government service plans and reports
Assessing the management of key risks within government programs and services
Policies and standards
Business support

Why Does Our 2002/03 Annual Report look different from the 2002/03–2004/05 Service Plan?

Readers may notice a number of differences between this report and our 2002/03–2004/05 Service Plan. At the highest level, our mission, goals and lines of business have not changed. What has changed is how we present our results. We have updated our reporting format to a style of presentation that better reflects how the Office actually manages for results, using a balanced scorecard approach. These changes were signalled in our 2003/04–2005/06 Service Plan. Since this is the format we intend to use in future years, we have opted to reflect this approach now.

We believe the new format better reflects the strategic linkages between our mission, goals, outcomes and measures of performance. It also provides a more logical way of explaining how we manage for results on an ongoing basis. We also believe the new format provides better accountability for the Office as a whole, by focusing more on overall achievements and less on the details of work performed within our audit sectors.

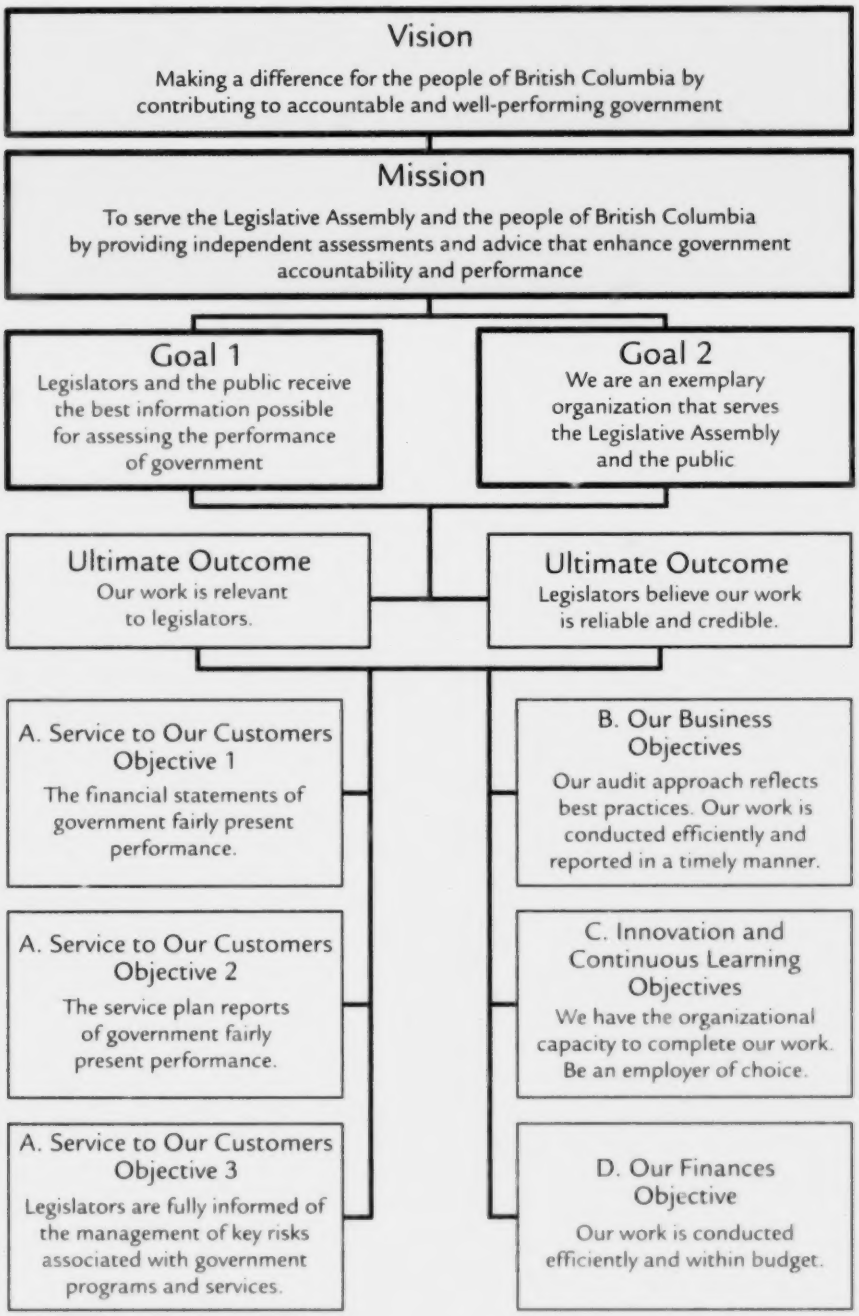
The 2002/03–2004/05 Service Plan contained a number of specific output targets. These outputs have, where relevant, been incorporated into the detailed discussions of performance accompanying our 16 key performance measures. We believe this appropriately shifts the emphasis from the work we did, a focus on outputs, to what these outputs accomplished, a focus on outcomes.

Exhibit 4 outlines the linkages between our strategies and our reported performance. The vision outlines the difference we hope to make for the people of British Columbia by contributing to accountable and well-performing government. We do this through our mission: providing independent assessments and advice that enhance government accountability and performance.

To enhance government accountability and performance, our work must be relevant to decision-makers and be seen to be reliable and credible. These are our ultimate, long-term outcomes. For each of our goals, we measure the value of our contributions as perceived by the information users, the Members of the

Exhibit 4

Auditor General Performance Reporting Framework


Vision
Making a difference for the people of British Columbia by contributing to accountable and well-performing government
Mission
To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance
Goal 1
Legislators and the public receive the best information possible for assessing the performance of government
Goal 2
We are an exemplary organization that serves the Legislative Assembly and the public
Ultimate Outcome
Our work is relevant to legislators.
Ultimate Outcome
Legislators believe our work is reliable and credible.
A. Service to Our Customers Objective 1
The financial statements of government fairly present performance.
A. Service to Our Customers Objective 2
The service plan reports of government fairly present performance.
A. Service to Our Customers Objective 3
Legislators are fully informed of the management of key risks associated with government programs and services.
B. Our Business Objectives
Our audit approach reflects best practices. Our work is conducted efficiently and reported in a timely manner.
C. Innovation and Continuous Learning Objectives
We have the organizational capacity to complete our work. Be an employer of choice.
D. Our Finances Objective
Our work is conducted efficiently and within budget.

Legislative Assembly. Under Goal 1, we have also identified three outcomes for service to our customers, one for each of our three main lines of business.

The Balanced Scorecard

We have organized measurement of the achievement of our goals around four perspectives: service to our customers, our business, innovation and continuous learning, and our finances. Together, these perspectives represent a "Balanced Scorecard" of the Office's performance.

Objectives and Strategies

Each of the four perspectives is supported by objectives that represent a refinement of our goals and are the first step in making the goals practicable. These objectives are in turn supported by strategies that specify the actions the Office will take to achieve its goals.

The success of achieving each strategy is supported by at least one performance measure. The importance of each measure and how it relates to achieving the Office's goals is explained. Most of the objectives, strategies and measures are interrelated. Key relationships are highlighted throughout.

A Note on Targets

Most of the measures described in this annual report are new. Consequently, the targets identified in the plan are, for the most part, based on best estimates of challenging but attainable performance. The precision and meaningfulness of our targets will improve as we gain experience in using these measures. We opted to identify specific, numeric targets for our performance measures. Some organizations have started with more general, less measurable targets, or chosen not to identify targets at all until they have accumulated experience in measuring their performance. We believe that firm targets provide the best basis for moving forward and, ultimately, inspiring improved performance.

Self-Assessment of Our Annual Report

In January 2003 when we issued our report *Building Better Reports: Our Review of the 2001/02 Reports of Government*, we also included a summary of the self-assessment we performed on our own annual report for the 2001/02 fiscal year, using the same performance reporting principles as we applied in our review of government organizations. This summary showed that our Office was still only at the start-up or in-process phase in each of the categories.

We assessed those findings and used them to improve the format and content of this year's annual report. We also performed a self-assessment on this year's annual report. A summary is provided in Appendix C. Although this year's assessment shows we still have a considerable way to go in fully incorporating the reporting principles into our report, we have made improvements.

It is our intention to continue to have these assessments conducted and reported annually, using an outside assurance provider, as early as for the 2003/04 Annual Report.

Readers should note that, except for the audited financial statements included in this report, all performance information is unaudited.

Goal 1

Legislators and the public receive the best information possible for assessing the performance of government

A. Service to Our Customers:

Legislators and the public receive relevant, reliable and understandable information about the planned and actual results of government and about how well government is managing the key risks it faces in achieving its planned results

As already noted, our work consists of three main lines of business: the audit of government's financial statements, assessments of government's service plan reports, and the audit of significant risks associated with the management and delivery of government programs and services. The measures under the first three objectives address key metrics for each of these activities. The fourth objective represents the result of our work—that it meets the needs of legislators and is considered reliable and credible.

Resources

As Exhibit 5 shows, in 2002/03 we planned to devote 44% of our Goal 1 resources to auditing government's financial statements and 48% of our audit resources to the significant risks associated with the management and delivery of government programs. The remaining 8% of Goal 1 audit resources were to be focused on assessing government's service plan reports.[1]

The planned allocations assumed we would no longer audit the financial statements of a number of our larger audit entities. However, after our plans were prepared, these entities asked our Office to continue as their financial statement auditor, which we agreed to do. As a result, we shifted some of our resources away from risk audits. Assessments of service plan reports were carried out as planned.

Providing assessments of government service plan reports is a relatively new line of business for our Office, which we expect will grow in relative importance. As government organizations begin to publicly report more comprehensively on their performance, especially in relation to the management of key risks, the need for us to directly audit the management of risk will decrease. The rate we expand this new business area will depend on the extent government organizations improve the quality of their performance

[1] The 2002/03–2004/05 Service Plan for the Office indicates another line of business of supporting legislators, for 5% of the total. As this was not very significant, this amount was reallocated into the other lines of business and has been restated in the fiscal 03 service plan bars for the 2002/03 fiscal year.

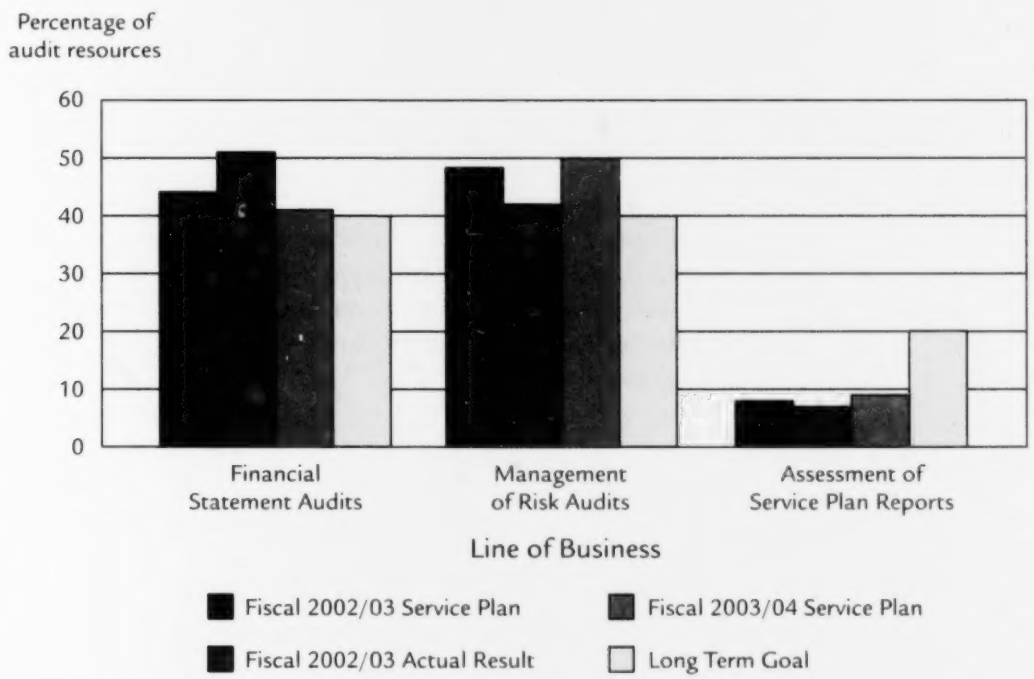
reports—the material has to be of sufficient quality for us to provide readers with assurance. The Office will also need to receive the funding necessary to perform such work—through additional appropriations, by billing entities directly for this work, or by reallocating resources from other lines of business. In the longer term, as the quality of public accountability reporting improves, the proportion of resources allocated to assessing service plan reports is expected to gradually rise to 20%, with the remaining 80% of resources split evenly between financial statement and risk audits.

Objective 1 - The financial statements of government fairly present performance

This is our most mature line of business. In general, except for the reservation in the audit opinion on the summary financial statements, we have found government financial statements to be fairly presented. Consequently, we measure whether legislators are

Exhibit 5

Comparison of planned and actual resource allocation by line of business



Source: Compiled by Office of the Auditor General of British Columbia

satisfied with government financial statement disclosure and with perceptions of our influence on fair presentation.

We believe it is important to conduct direct audits of government and public sector financial statements. Our broad strategy over the next three years is to ensure we devote about 40% of our efforts to this work. Our audits will include examining and reporting on the government's overall summary financial statements, which are expected to provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible. We will also examine and report on the financial statements of individual government organizations.

Although we recognize that private sector audit firms have the capacity to carry out financial statement audits of public bodies, we have an overarching responsibility to advise the Legislative Assembly about whether the audit of financial statements across government serves its best interests and is carried out efficiently and effectively. To conduct an effective oversight role, we need to perform some audits across all sectors of government to keep in touch with significant issues, maintain our knowledge of government entities, and identify key risk areas.

Given our limited resources, we must perform our financial audits on a cyclical basis. For example, our strategy for most financial audits is to retain them for a three to five year period, then release them to the private sector through a competitive bid process, picking up new ones at the same time. This allows us to cover all of government over time, and is consistent with emerging auditing standards around professional practice management.

When selecting new financial audits, we consider the overall mix across sectors, the audit size, how the work will be done (that is, using our own staff or through contracted auditors), the risk and consequences of error, and the length of time since we last audited the entity.

We also strive to maintain our capacity to conduct our direct financial attest audit work. One way we do this is by maintaining a strong base of students-in-accounts which, when combined with our complement of accounting professionals, allows us to maintain our continuity across all sectors of government. Although many

of our students move to the public sector once they have received their professional designations, we believe this is a secondary positive impact of our work, since government as a whole benefits.

Strategy 1 – Attesting directly to the reliability of government financial statements

Outcomes

Key Measure #1	Target for 2003/04	Actual
Legislators believe the financial statements of government fairly present performance	80%	Not yet measured

Through the assessments and advice we provide, legislators and the public are assisted in understanding the extent to which the financial statements of government fairly present financial performance. Ultimately, the outcomes we desire are that government's financial statements fairly present financial performance, and that legislators have faith they are receiving complete and accurate information about government's financial performance.

The Auditor General is just beginning to canvas legislators about their perceptions of our work, so the targets shown represent only estimates. Targets will be adjusted once we have collected baseline data.

Key Measure #2	Target for 2003/04	Actual
The Public Accounts Committee and other Members of the Legislative Assembly believe that our work improves the reliability of government financial statements	80%	Not yet measured

This measure reflects our belief that, over time, the work we do with government and with standard-setting bodies on the national level improves the reliability of financial statements in British Columbia.

Discussion of Outputs

As explained in the introduction to this section, we carried out more financial statement audits during 2002/03 than planned. As a result, we exceeded our target for the number of financial statement audit opinions issued, as well as the amount of audit resources we had initially allocated to this line of business.

We were not able to meet our target of 95% (as set in our 2002/03–2004/05 Service Plan) for the issuance of all audit opinions within the five-month deadline from the balance sheet dates. There were several reasons for this. One was that more staff were shifted into the audit of the public accounts work in the April to June period than normal, responding to the short timeframes for the sign-off of the overall opinion on the government's financial statements. This, combined with the higher number of financial statements we had to audit than planned, forced us to change the scheduling for some our audit work. We therefore started lower priority audit work later than normal, which pushed the eventual sign-off date beyond the five-month period. Also, in some cases the boards of the entities did not meet to discuss and approve the financial statements in time to enable us to meet our five month deadline.

We issued 16 management letters during the fiscal year, which included about 100 new recommendations. However, we were not able to meet our target of issuing 95% of those management letters within six weeks of the dates of our audit reports. The reason for this was the same staffing and timing issues as noted above. Nevertheless, we did informally communicate with management of the entities in a timely way about all significant matters that came to our attention.

Outputs

Output Measure	Unit of Measure	Targeted Performance	Actual Performance	Target Met?
Quantity of financial statements issued	Number	53	80	Yes
Audited financial statements available within statutory deadlines or within 5 months of the balance sheet date	Percentage	95	76	No
Management reports are issued within six weeks of the date of the audit report	Percentage	95	40	No
Resources applied to line of business	Percentage of total audit resources	44	51	Yes

Overview of financial statement audit coverage

Sector	Quantity			
	Total entities in group	Audits Planned	Actual	Target Met?
Education	60 school districts 22 colleges and institutes Six universities	Zero school districts One college One institute Six universities	Zero school districts One college One institute Six universities	Yes
Finance and Transportation	The Public Accounts[1] 7 Crown corporations 2 pension funds	The Public Accounts 2 Crown corporations 2 pension funds	The Public Accounts 2 Crown corporations 2 pension funds 2 others	Yes
Health	6	1 Health Authority	1 Health Authority	Yes
Natural Resources and the Environment	32	9 Crown corporations	11 Crown corporations	Yes
Protection of Persons and Property	9	6	7	Yes

[1] This audit uses staff and resources from all audit sectors, and is coordinated through the Finance and Transportation sector.

Objective 2–The service plan reports of government fairly present performance

The Budget Transparency and Accountability Act, or the BTAA, was proclaimed in 2000 and updated in 2001. A key element of the BTAA is the requirement for all government organizations to publish an annual account of their activities and accomplishments, including performance measures, in an annual service plan report. This requirement recognizes that government organizations are accountable to the people of British Columbia and their elected representatives in the Legislative Assembly for accomplishing certain objectives.

To be useful to legislators and the public, however, the information contained in service plan reports must be perceived as relevant, reliable and accurate—in other words, readers must believe the information is credible. Legislation does not guarantee meaningful public reporting and accountability. We've moved from a "trust me" culture, where British Columbians have implicit faith that governments will work in their best interests, to a "show me" culture, where citizens want assurance not just over how much money government has spent, but also over what government has accomplished with the money spent.

Independent assurance is driven by the needs of information users. Organizations can assure readers the information they're providing is credible, and why it's credible, but for several reasons this may not be enough.

Readers are remote from the organizations producing service plan reports. If readers wanted to verify specific information contained in a report, it's not as if they could simply walk into an organization and verify information themselves. On the other hand, the Auditor General does have access to government records, and does have the ability to ensure the data presented in service plan reports is accurate.

The complexity of government operations, underlying systems, and the operating environment makes it difficult for readers to know if all relevant information has been disclosed, and disclosed accurately. The staff of the Auditor General can, acting on behalf of readers, employ their knowledge of government operations and expertise in assessing the quality of information.

The tendency of some users to focus only on negative aspects of performance provides a disincentive to public sector organizations to provide full and impartial disclosure. This conflict is inherent in all accountability reporting. As an independent Officer of the Legislature, the Auditor General can alleviate concerns over reporting bias and in this way shore up the accountability relationship between government organizations and the users of information.

Our Office has just begun providing independent assurance for government performance reports. We expect to do more of this work in the future.

Strategy 1–Assessing the quality of government service plan reports

Our primary strategy for achieving this objective is to begin assessing the quality of government service plan reports. In the work leading up to *Building Better Reports: Our Review of the 2001/02 Reports of Government*, we assessed the service plan reports of all 20 government ministries, 18 major Crown corporations, as well as the report of the Office of the Premier and the government as a whole. The results of this year's assessments were provided to each organization, and we intend to publish individual assessments in next year's review.

We also conducted our first audit of a performance report, at the Public Guardian and Trustee of British Columbia. This audit was required under the Public Guardian and Trustee Act, to date the only legislation in British Columbia specifically requiring audit assurance for performance reporting. Our audit report was included in the Public Guardian and Trustee's 2001/02 annual report, which can be found at www.trustee.bc.ca.

Doing this work required the development of a new assurance methodology, which we also applied in our Building Better Reports reviews. Details about this methodology can be found on our website, www.bcauditor.com.

In related work, we also provided—for the first time—independent assurance in a report called *How Healthy Are We?: British Columbia's Report on Nationally Comparable Performance Indicators*. Each province published these indicators of the state of health care in Canada, and assurance on the accuracy of the

information was provided by the Auditor General or Provincial Auditor in each jurisdiction. Our audit opinion was published with the indicators and can be found at www.healthplanning.gov.bc.ca.

In addition to our primary strategy, we engaged in other activities in support of Objective 2. Last year, the Public Accounts Committee recommended that government work with the Auditor General to seek consensus on public performance reporting principles to be used in the British Columbia public sector. The committee also recommended that government work with our Office to develop and implement a program of independent assurance for performance reporting. Members of the Office have played an active role in working with government to fulfill these recommendations. A set of performance reporting principles will go to the Public Accounts Committee for endorsement early in 2003/04. A recommended assurance program, based on a number of pilot studies, is expected to be complete by the end of 2003/04.

We also intended during the year to complete a project assessing the capacity of government to manage performance. However, because of the amount of work associated with developing the BC performance reporting principles, we were unable to start the project until the end of the fiscal year. We expect to complete it by the end of 2003.

Outcomes

Key Measure #3	Target for 2003/04	Actual
The Public Accounts Committee and other Members of the Legislative Assembly believe that our work improves the quality of government service plan reports	80%	Not yet measured

Ultimately, the outcome we desire is that legislators and the public have faith they are receiving complete and accurate information about government's overall performance. However, the public reporting of results is a new area and standards for disclosure are only just evolving. It will take time and considerable effort for all government organizations to comprehensively report on their performance, although progress is being made. It is our short-term objective to encourage organizations to improve the

quality of their public performance reporting. The challenge for our Office is to strike the right balance between being supportive and maintaining the professional standards and the independence that are essential for us to do our job.

In the meantime, since government organizations are just starting to report comprehensively on their performance, we will measure the belief that, over time, the work we do with government and standard-setting bodies on the national level improves the quality of service plan reports. We have not yet collected this information, but it is included as part of our coming year's customer relations strategy.

Key Measure #4	Target for 2003/04	Actual
Audited organizations believe that audits improve the quality of their service plan reports	80%	100%

At the moment, we have conducted only one such audit, at the Public Guardian and Trustee. During our post-audit debriefing, the organization stated their belief that our involvement had a strong positive influence on the quality of their performance report.

Outputs

Output Measure	Unit of Measure	Targeted Performance	Actual Performance	Target Met?
Reports expected to be tabled	Number	3	3	Yes
Reports completed within planned timeframes	Percentage	85%	75%	No
Resources applied to line of business	Percentage of total audit resources	8%	7%	No

Objective 3–Legislators are fully informed of the management of key risks associated with government programs and services

Over the past year we continued to focus on issues in the health and education sectors, the regionalization and outsourcing of service delivery, large capital projects, complex mission-critical information systems, and government's progress towards sustainability. However, we have not limited our attention to the expenditure side of the ledger when examining these risks. We also consider the revenue side of the equation and the risks to balance sheet items such as management of cash, investments, borrowing and infrastructure for hospitals and schools.

In selecting topics for review, we also consider their risk characteristics, impact, auditability, financial significance, and interest to legislators and the public. For legislators to be informed about the management of key risks associated with government programs, our audit topics must be relevant and our reports informative and timely. In limited circumstances we also respond to requests from legislators or committees to conduct investigations or issue special reports.

The operations of the Government of British Columbia are very large in size and scope relative to our audit resources. We therefore try to focus on the issues of greatest significance, interest and value to legislators and the people of the province. Exhibit 6 shows the coverage we have provided with our reports on the management of risks over the previous two fiscal years, as well as the projects that were in progress at the end of the 2002/03 fiscal year. Appendix A provides a summary of these reports.

Exhibit 6

Providing coverage of sectors of government

Sector of Government	Completed in Fiscal 2001/2002	Completed in Fiscal 2002/2003	In Progress at March 31, 2003
Education			✓
Finance & Transportation	✓✓	✓	✓
Health	✓		✓✓✓
Natural Resources		✓	✓✓
Protection of Persons	✓✓	✓	✓✓
General Government		✓✓	✓

✓ = a management of risk report tabled with the Legislative Assembly. Excludes special reports, and our follow-up reports that we also table each year to the Legislative Assembly.

Strategy 1 – Assessing the management of key risks within government programs and services

Outcomes

Key Measure #5	Target for 2003/04	Actual
The Public Accounts Committee and other Members of the Legislative Assembly are satisfied with the relevance of our audit topics	80%	Not yet measured

Key Measure #6	Target for 2003/04	Actual
The Public Accounts Committee and other Members of the Legislative Assembly found our reports sufficiently informative about the key risk areas examined	80%	Not yet measured

The outcome we ultimately desire is that legislators and the public have faith they are receiving timely, relevant and useful information about the government's management of risk.

Hansard, the official record of legislative proceedings, notes several instances where the results of our work have been cited. In almost all cases, these comments were supportive of the information we have provided. While we take some comfort from being cited in this way, we are committed to a more rigorous study of legislator perceptions in the coming year.

Outcomes

Key Measure #7	Target for 2003/04	Actual
Key stakeholders are satisfied with the relevance and timeliness of our audit topics and the quality of our reports	80%	Not yet measured

Virtually all of our recommendations were accepted by government. We believe this represents tangible evidence of the relevance and quality of our work. Nevertheless, we are committed to a more direct means of measuring stakeholder satisfaction.

Key Measure #8	Target for 2003/04	Actual
The percentage of recommendations endorsed by the Public Accounts Committee	95%	100%

The Public Accounts Committee, an all-party committee of the Legislature, reviews the Auditor General's reports. Endorsement of our recommendations by the committee is a key measure of the Legislature's support of the Office's work. Our 100% rate for committee endorsement compares favorably with the 76% (2000/01) endorsement rate obtained by the Auditor General of Canada.

Follow-up Reviews of Performance Reports

We periodically perform follow-up reviews to provide the Legislative Assembly and the public with an update on the progress made by management in implementing our recommendations and those made by the Public Accounts Committee. Our recommendations are designed to improve public sector performance and are an important value-added component of our work.

To complete our follow-up reviews, we first ask for written representations describing the actions taken to follow the recommendations. The Office then reviews these representations to determine whether the information reported was presented fairly in all significant respects.

As agreed to by the committee, we provide reports to the committee as the individual follow-up reviews are completed. Periodically, these follow-up reports are summarized and presented to the Legislative Assembly.

During the year, we issued two follow-up reports—one in June 2002 and one in January 2003—which summarized the results of a total of 14 follow-up reviews carried out during the year. Exhibit 7 highlights the status of our recommendations in the June 2002 report.

The June 2002 report covered the status of 240 recommendations. We were pleased to note that management has accepted all of the recommendations, with 145 (60%) of them having been either fully or substantially implemented. Of the other recommendations, 73 (31%) have been partially implemented, and for 14, alternate action had been taken. There were only eight recommendations where no action had yet been taken.

Exhibit 8 highlights the status of our recommendations in the January 2003 report.

The January 2003 report included 125 recommendations. Management has accepted all of the recommendations, with 53 (42%) of them having been either fully or substantially implemented. Of the other recommendations, 67 (54%) have been partially implemented, and for two, alternate action had been taken. There were only three recommendations where no action had been taken.

Exhibit 7

Summary of status of recommendations, in the June 2002 report

Report	Total Number of Recommendations	Fully Implemented	Substantially Implemented	Partially Implemented	Alternative Action	No Action	Further Follow-up Required
Fostering a Safe Learning Environment	OAG 19	2	3	5	8	1	14
Earthquake Preparedness	OAG 22	9		10	2	1	11
	PAC 25	14		8		3	11
Social Housing:							
▪ Governance	OAG 15	11	2	1	1		0
▪ Subsidies	OAG 12	11		1			0
Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use	OAG 10	5	1	4			4
	PAC 1	1					0
Management Consulting							
▪ Focused on Ministry of Finance	OAG 3		1	1	1		2
▪ Focused on ministries (9 applies to all)	OAG 9						
▪ Advanced Education	9	2	5	1		1	2
▪ Children and Family Development	9	2	6	1			1
▪ Competition, Science and Enterprise	9	3	2	4			4
▪ Forests	9	9					0
▪ Health	9	6	2		1		0
	45						
Managing the Woodlot Licence Program	OAG 19	8	4	6	1		0
Collection of Overdue Accounts Receivable	OAG 32	10		21		1	22
	PAC 4	1		2		1	3
Year 2000 Preparedness	OAG 7	7					0
	PAC 2	2					0
BC Ferry:							
▪ Fleet and Terminal Maintenance Management	OAG 8	1		7			7
	PAC 3	2		1			1
▪ Operational Safety	OAG 10	9	1				0
	PAC 3	3					0
Total OAG	203	95	27	62	14	4	67
Total PAC	38	23		11		4	15
Grand Total	**241**	**118**	**27**	**73**	**14**	**8**	**82**
Percentage		**49%**	**11%**	**31%**	**6%**	**3%**	**34%**

Exhibit 8

Summary of status of recommendations, in the January 2003 report

Report	Total Number of Recommendations	Fully Implemented	Substantially Implemented	Partially Implemented	Alternative Action	No Action	Further Follow-up Required
Maintaining Human Capital in the British Columbia Public Service: The Role of Training and Development	27	10	12	5	–	–	–
Managing Interface Fire Risks	37	15	–	20	–	2	22
Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure	24	6	–	17	–	1	18
Monitoring Credit Unions and Trust Companies in British Columbia	9	7	–	1	1	–	–
Protecting Drinking Water Sources*	28	3	–	24	1		25
Total OAG	123	41	12	65	2	3	65
Total PAC	2	–	–	2	–	–	–
Grand Total	**125**	**41**	**12**	**67**	**2**	**3**	**65**
Percentage		**33%**	**10%**	**54%**	**1%**	**2%**	**52%**

* Status at the date of the last follow-up, October 2000. No follow-up was carried out on this report, since the program has significantly changed. A new audit will be carried out in the future.

Our rate of implementation is comparable to that achieved by the Auditor General of Canada for recommendations made between 1996 and 2000 (fully implemented—25%, satisfactory progress—49%).

Our next follow-up summary report will be issued during the summer of 2003. See Appendix A for the reports we will cover.

Discussion of Outputs

In discussing the results of the output measures for this objective, two points can be stressed. One is that we strive for reporting fairly and accurately, because these are key ingredients of ensuring that our work will be credible and trustworthy to our readers. We would rather "get it right" than "do it fast."

The second point is that there is no "standard" risk audit in terms of a standard length of time or budget. The reason for this is that we don't know the details of the scope and resources needed for the audits until an initial survey of the specific program area has been made and detailed audit criteria prepared.

We planned to deliver between 8 and 10 management-of-risk audit reports during 2002/03. However, we only produced five reports. A number of staff were pulled from risk audit work for the Olympic bid review, which required a cross-Office effort to meet stringent scope and schedule requirements. In addition, some staff were diverted to work on two special reports, and to meet the shorter reporting requirements for the public accounts. These factors, combined with difficulties the Office faced in successfully recruiting staff in a timely way, led to hiring lags and subsequent delays in several management-of-risk audits.

Outputs

Output Measure	Unit of Measure	Targeted Performance	Actual Performance	Target Met?
Reports expected to be tabled	Number	8–10	5*	No
Audits are completed within planned timeframes	Percentage	70	55	No
Audits are completed within budget allocated	Percentage	70	80	Yes
Resources applied to line of business	Percentage of total audit resources	48	41	No

*In addition, 2 special reports were tabled during the year.

Report Relevance

One of the ways we track the relevance of our reports is through the ongoing monitoring of the use of our reports on our Internet site.

In 2001/02 we implemented a new software program called WebTrends. It allows us to gain significant insight into the usage of our website. During the year, our website had 108,824 visits and 249,864 hits (2001/2002 89,191 visits and 324,460 hits). Exhibit 9 shows the top 10 reports in terms of the number of website visits and hits in the past year.

Ultimate Objectives - The work of the Office meets the needs of legislators and is considered reliable

Strategy 1 – Remaining responsive to the needs of legislators and supporting the standing committees of the Legislative Assembly

The ability of the Auditor General to fulfill his or her mission by offering independent assessments and advice rests on perceptions of his or her relevance and credibility. Relevance is ensured where legislators believe our work meets their needs and addresses their priorities. The credibility of the Auditor General and of the Office is created by demonstrating independence and ensuring that all work is of the highest standard (see detailed measures under Goal 2B).

Key Measure #9	Target for 2003/04	Actual
Legislators believe our work adequately meets their needs and addresses their priorities	80%	Not yet measured

Key Measure #10	Target for 2003/04	Actual
Legislators believe our work is reliable and credible	80%	Not yet measured

Exhibit 9

The Office's "Top10" reports by web visits and hits,* April 2002 to March 2003

	Top Directories	Visits	Hits
1	*Fostering a Safe Learning Environment: How the British Columbia School System is Doing* *Report 1—June 2000*	7,733	12,029
2	*Protecting Drinking-Water Sources* *Report 5—April 1999*	6,633	12,705
3	*Overview of the Provincial Government's Collection of Overdue Accounts Receivable* *Report 3—October 1998*	4,621	8,367
4	*Building a Strong Work Environment in British Columbia's Public Service:* *A Key to Delivering Quality Service* *Report 1—April 2002*	3,772	7,837
5	*A Review of the Fast Ferry Project:Governance and Risk Management* *Report 5—October 1999*	3,217	6,344
6	*Report on Government Financial Accountability for the 1997/98 Fiscal Year* *Report 2—June 1999*	2,949	5,052
7	*Follow-up of Performance and Compliance Audits, a Review and a Study* *Report 3—December 2000*	2,235	5,189
8	*Monitoring Credit Unions and Trust Companies in British Columbia* *Report 5—March 2001*	2,183	4,415
9	*Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use,* *Ministry of Health and Ministry Responsible for Seniors* *Report 2—July 1998*	2,148	3,413
10	*Maintaining Human Capital in the British Columbia Public Service:* *The Role of Training and Development* *Report 3—August 1999*	2,096	3,826

***Visits Vs Hits**

Visits - Number of visits to our website. A visit is a series of actions that begins when a visitor views their first page from the server, and ends when the visitor leaves the site or remains idle beyond the idle-time limit. The default idle-time limit is thirty minutes.

Hits - Number of hits to our website. Each file requested by a visitor registers as a hit. There can be several hits on each page. While the volume of hits reflects the amount of server traffic, it is not an accurate reflection of the number of pages viewed.

Goal 2

We are an exemplary organization that serves the Legislative Assembly and the public

B. Our Business:

Our work will meet the highest professional and ethical standards

Key to ensuring the Office's ongoing credibility is ensuring our audits reflect best practices, are conducted with high ethical standards, and are reported in a timely manner.

Objective 1 – Our audit approach reflects best practices

Keeping on Top of Professional Best Practices

Staying up to date with developments in public sector accounting and auditing is important to the Office. By maintaining involvement with professional organizations, we continue to meet the needs and expectations of our customers by learning how to do new things properly, and how to do old things better.

Canadian Council of Legislative Auditors (CCOLA)

CCOLA is an organization devoted to sharing information and supporting the continued development of auditing methodology, practices and professional development. The council's membership consists of the Auditors General or Provincial Auditors of the Canadian provinces and the federal Auditor General. It also has one associate member, the Auditor General of Bermuda.

Participating in CCOLA provides us with a cost-effective means of improving the effectiveness and performance of the Office. Our ability to tap into the shared expertise of legislative auditors across the country provides us with resources and information well in excess of our own capacity to create.

A number of the Office's staff hold positions in CCOLA interest groups and committees, including the Audit Methodology Study Group, the Health Indicators Study Group, the Strategic Issues Study Group, the Performance Reporting and Auditing Group, and the Information Technology Committee.

Canadian Institute of Chartered Accountants (CICA)

Accounting and auditing standards are undergoing unprecedented public scrutiny and change. We need to stay on top of these changes if we are to serve the financial reporting needs of our customers effectively. The Office maintains an active association with the CICA, the principal standard-setting body in Canada for accounting standards and assurance practices.

Wayne Strelioff, the Auditor General of British Columbia, is a former member and a current associate of the CICA's Public Sector Accounting Board (PSAB), and Peter Gregory, the Deputy Auditor General, is the Chair of the CICA's Assurance Standards Board.

Internal Professional Practices Group

In addition to our work with professional associations, we have established a professional practices committee within the Office to monitor our practices and coordinate updates to our methodology. The Office's professional practices committee is responsible for providing staff with the latest developments in accounting and auditing matters. The committee provides advice to staff on current and emerging technical issues and develops policies, standards and practices that ensure the Office provides quality information, assurance and advice in a consistent and efficient manner.

Throughout the year, the Office has ongoing liaison with professional bodies. In 2002/03 the Office participated in forums concerning emerging accounting and auditing issues, sponsored by the CICA and CCAF-FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation).

We believe that keeping in touch with emerging issues in our profession, combined with our ongoing quality assurance processes, should give users of our reports comfort that the information presented is of the highest standard and reflects best practices.

We believe our work in relation to best practices and quality assurance (see sidebar on next page) is important in addressing the risk that we might report inappropriate conclusions based on incomplete or inaccurate information. Protecting against such negative outcomes is an important part of preserving our credibility—the essential capital with which we work.

Quality Assurance

The audits we undertake are carried out in accordance with the assurance standards established by the Canadian Institute of Chartered Accountants. These standards are rigorous and demanding. They are designed to ensure that our audits are properly planned, staffed, conducted and reported, and that our audit findings are based on well-substantiated evidence. We consider, as well, international assurance standards when planning our audits, particularly when an issue is not addressed specifically in Canadian standards. Where required, we involve professionals with specialist knowledge in the subject area under review.

In addition to external assurance standards, the Office has established other processes for ensuring a high standard of work. The Office's audit manuals, for instance, provide staff with policy and technical direction, procedures that reflect current best practice, and expectations for the exercise of professional judgement. The manuals are regularly reviewed and updated.

The credibility of our work rests on adherence to these standards. To ensure our audits meet external assurance standards as well as our own standards for documentation, all audit files are subject to thorough reviews. This ensures that the conclusions and opinions we express in our reports are accurate and supported by sufficient, appropriate evidence.

For our risk audits, we establish advisory committees, that usually include knowledgeable people from outside the Office. These committees consider whether:

- critical areas for in-depth examination have been identified;
- a sound methodology and suitable criteria have been selected;
- reported findings fairly present the facts; and
- conclusions are plausible and adequately supported.

The checks and balances that underpin our audit work are important, though sometimes time-consuming. This is particularly so where audit findings are controversial. Government officials, for example, may need considerable time to assess the completeness of our work or to respond to our findings. In some cases, legal counsel may be employed by both government and by our Office.

We believe the rigour of our quality assurance processes adds value and credibility to our work.

International Leadership

Our Office is recognized internationally as a leader in legislative auditing. As a result, every year we have visitors from other countries who come to learn about our work and practices.

In 2002/03, a Deputy Director from the Korean Board of Audit and Inspection completed an 18-month stay with us to learn about our methods of performance and environmental audit.

In April 2002, a delegation from the National Audit Office of the People's Republic of China visited the Office to learn about our work and our system of government. The delegation, which was led by China's Deputy Auditor General, focused on a range of matters, from our internal organization to how we are funded.

Strategy 1 – External quality assurance audits by the Institute of Chartered Accountants of British Columbia (ICABC)

As well as our own quality assurance processes, the Office is subject to processes that involve outside parties. For example, the Institute of Chartered Accountants of British Columbia (ICABC) undertakes periodic practice inspections. Such inspections help ensure that professional standards are being followed and that the Office's practices are suitable for the training and apprenticeship of new professionals. The last practice inspection carried out by the ICABC was in the fiscal year 2001/02.

Outcome

Key Measure #11	Target for 2003/04	Actual
Percentage of audits selected meeting practice standards	100%	100%

Periodic ICABC practice reviews support confidence in the quality of our work. Meeting these standards offers independent evidence that our work was conducted with due professional care, in conformity with the quality and independence standards established by the Canadian Institute of Chartered Accountants. Nonetheless, ICABC practice review standards represent only a minimum. As a matter of policy, all of our audits must be carried out in accordance with our own quality assurance standards, which we believe exceed the minimum. All audit files are subject to internal quality assurance reviews to ensure they meet our standards. No exceptions were noted to our standards in the past year.

We intend to revisit this measure of our performance as the practice of legislative audit peer review develops. Legislative auditors around the world are in the process of establishing protocols for peer reviews of each other's practices. For instance, in 2003/04, the Office of the Auditor General of Canada will be

subject to an external examination by auditors from the United Kingdom, Norway, the Netherlands and the United States. We believe meeting the standards imposed by peer reviews will represent more of a stretch target for the Office.

Objective 2–Our work is conducted efficiently and reported in a timely manner

We are a project-based, professional service organization. We need timely and accurate information on the status of our projects. This gives us supporting information for making decisions, as well as for being flexible when priorities shift or new opportunities arise. It also gives us the information we need to be accountable for our financial and operational results.

Over the last several years, we have been shifting our focus from being a process-based organization to being more of a project management culture. An important element of this transition is to have good systems to gather and manage our financial and operational information. Near the end of the fiscal year 2002/03, we implemented the first phase of a new project management system that will allow us to better manage our resources.

When we carry out our work, we need to strike a balance between efficiency—getting it done on time and within budget—and accuracy, which is about meeting our professional responsibilities to conduct our work to the highest standards that will ensure a quality product.

Outcome

Key Measure #12	Target for 2003/04	Actual
Percentage of audits completed on time (+5%)	80%	95%
Percentage of audits completed within budget (+5%)	80%	60%

The relevance of our work is related to the timeliness of our reporting, and completing projects within the estimated elapsed time reflects effective utilization of resources. For the most part, we have been successful in the timeliness of the reporting we do on financial statement work. For years our Office has been encouraging the government for timelier reporting for the public

accounts. We are pleased to see that occurring. However, this has created significant challenges for our Office in providing sufficient staff hours to complete the public accounts audit in this shorter period.

We have been less successful, however, in meeting our time commitments for our managing risk audits. The reasons are the same as those discussed in Goal 1, objective 3, regarding changes in our workplan during the year, our quality assurance process, and reporting issues that cannot be readily predicted. When we issue risk management audits beyond the planned reporting dates, there is often an extra cost in doing so.

With respect to the percentage of audits completed within budget, we did not meet our target this year. This was due to a number of factors. One was that this past year was somewhat unusual in terms of the degree of change in our work program, which required a higher than normal amount of rescheduling. Another factor is that it is not unusual for actual costs to vary from the estimated amounts. This is due to factors such as the state of the accounts of auditees when we carry out our work, and unforseen accounting and auditing issues, which can consume considerable time. Although we were not able to meet our target this year on a job-by-job basis, a number of our audits were completed under budget, with our overall financial statement audit work completed within 5% of the original budget.

C. Innovation and Continuous Learning:
We have the knowledge, capacity and business processes to do our work

Ensuring our work meets the highest professional standards is a key element for maintaining the Office's credibility (Goal 2B, Objective 1). For this reason, it is important that we invest in our knowledge of best practices and continually seek new ways to improve our service to the Legislative Assembly. We encourage the development of, and investment in, the capacity of our staff to do their jobs better now and in the future by keeping abreast of professional development, investing in our human and information technology capital, and becoming an employer of choice.

Objective 1 - We have the organizational capacity to complete our work

To meet our emerging needs for staff development, we need to be looking ahead 18 – 36 months for emerging issues that will affect our capacity to carry out our work plan and meet our goals. These include issues such as new professional practice standards, new types of assurance we can provide legislators, new expertise needed for new types of government programs, and opportunities to use new technologies to become more efficient in the conduct of our work.

For example, during the year we devoted resources to learning about public-private partnerships, in anticipation of government initiatives in this area. We also formed an internal risk management interest group to develop core knowledge in this area that can be shared throughout the Office. We also completed a project to create a cross-government inventory of information technology control environments that significantly enhance our knowledge of these systems and will be used in future years to assist us with making the audit of the public accounts more efficient and robust.

Strategy 1 – Our staff competency profiles match our work requirements

Our main strategy for maintaining and developing our organizational capacity is to focus on the gap between our skill sets and skill demands. This strategy is a key element in addressing the risk of not having the skill sets necessary to perform our work.

Before we could begin comparing the skill sets the Office has with the overall profile we desire, we needed a measurement framework. We chose a competency-based framework that articulates behavioral and knowledge-based competencies in three areas:

- technical
- leadership
- core

Outcome

Key Measure #13	Target for 2003/04	Actual
The percentage fit between our skill sets and demands	80%	85%

Each audit sector is in the process of developing a desired competency profile, based on the new competency-based framework. Sector competency profiles were matched against the sector's existing complement of competencies to produce the measure above. Sector hiring and training decisions will be based on maintaining the sector competency profile, or filling shortfalls. A high correlation between desired competencies and existing competencies is desirable, although a 100% fit is unlikely because of turnover and changing priorities.

For certain skill sets, it will be more economical and practical to hire specialist skills than to develop them internally. Our hiring practices are geared towards acquiring skills we do not possess and which cannot be readily developed in-house. Because of turnover, and the fact that legislative auditing is a constantly evolving practice, ongoing investment is necessary. Major initiatives in maintaining and developing our competency profile are outlined below.

Technical: Our training initiatives in 2002/03 focused primarily on developing technical competencies. In the past, our major training initiative has focused on supporting staff in pursuing a professional accounting designation. During the course of the year, 13 staff were studying for an accounting designation. Of these, four obtained their CA designation.

Jagdip Mann, Niro Sivakumar, Jenny Leung, Travis Waite

Given the increasing reliance of government on automated systems, and our role in ensuring the effective operations of these systems, we have supported a number of staff in pursuing their Certified Information Systems Auditor (CISA) designation. During 2002/03, four staff members were involved in the program, and one was successful in obtaining the CISA designation.

As part of maintaining and developing advanced technical competencies, staff are encouraged to participate in national forums such as those hosted by the Canadian Conference of Legislative Auditors, the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of BC, and the Conference Board of Canada. A number of staff made presentations at these and other forums over the course of the year.

Leadership: We also devoted some resources in 2002/03 to developing staff leadership competencies. We supported external training courses, offered staff more challenging assignments and created several developmental positions. During the year we also developed a leadership development program that is being implemented in the first quarter of fiscal 2003/04.

Outputs

Output Measure	Targeted Performance	Actual Performance
Percentage of staff completing Employee Performance Development Plans by fiscal year end	100%	40%

In order to put together our employee competency profiles, all staff were asked to prepare an Employee Performance Development Plan, highlighting their demonstrated competencies and opportunities for development.

Objective 2 - Be an employer of choice

We operate in a competitive marketplace. Our staff possess skills and qualifications that are attractive to other employers—employers who are frequently in a better position to compete for staff on the basis of wages. Our overall staff turnover this year was 10%, which was comparable to the two prior years (2001/02, 9%,

2000/01, 11%). Legislative auditing requires a unique mix of skills that is not widely available in the marketplace. Developing the competencies and skills we require is both resource intensive and time consuming. Given the difficulty in finding qualified replacement staff, and the time and costs associated with training them, an important measure of our organizational capacity will be how well we can create and maintain a positive, motivating environment.

Strategy 1 – Obtaining feedback from employees about the work environment

Recognizing the investments already made in current staff, and the ongoing challenge to attract and retain high performers, our objective is to maintain our highly skilled workforce by being an employer of choice.

Key Measure #14	Target for 2003/04	Actual
1) Work environment engagement score	70%	70%[5]

[5] The components used in the score are considered accurate within 4%, 19 times out of 20.

The engagement score is a compendium of key "Serve, Say, Stay" responses in our biannual work environment survey, indicating the overall level of employee engagement with the Office and its work. Engaged employees are productive and innovative and take ownership of results. This creates and sustains a high performing organization and provides superior customer service. However, having a highly engaged workforce is desirable in itself, it does not tell us the degree to which employee engagement translates into productivity and staff turnover. The measure will be made more meaningful in the future by linking it with productivity and turnover measures.

The work environment survey was last conducted in the fall of 2002. At that time, the engagement score was 70%. This compares to a benchmark of 79% for a list of top 50 companies in Canada (compiled by Hewitt and Associates).

Exhibit 10

An overview of human capital statistics for the past four years

Notes		2000	2001	2002	2003
1	Executive	10	12	10	8
	Audit	62	57	61	64
	Corporate Services	15	18	17	16
2	Number of staff	87	87	88	88
3	Number of hires	12	16	15	10
3	Number of exits	7	17	11	9
4	Staff turnover (%)	6	11	9	10
4	Student turnover (%)	20	8	20	0
5	Average training and development hours for staff	63	77	57	60
6	Number of staff with a professional accounting designation	51	52	50	50
	Number of staff with a Certified Management Consulting designation	7	7	8	7
	Number of staff with Certified Information Systems Auditor designation	2	2	1	2
7	Number of accounting students (FTEs)	15	13	15	13
	Age range of staff	22-63	24-60	23-60	23-62
	Average age of staff classified at ML5 and above	51	52	51	52
	Number of staff eligible for retirement within 5 years (age 55 or more)	23	22	26	19

Notes:

1 Includes staff at ML8 and above.

2 These are the person years worked during the period. For example, one person working for 6 months would only count as .5 of a staff member. Contracted resources are not included.

3 These are the number of staff hired or that left voluntarily that were permanent and fulltime.

4 Calculated from the number of hires or exits divided by the number of staff.

5 Includes all hours spent on internal or external learning events, divided by the number of staff.

6 Includes all staff with CA, CGA, or CMA designations at the fiscal year end.

7 Includes permanent full time staff that are being supported towards obtaining their professional accounting designations.

8. Source of data: The Corporate Human Resource Information System (CHIPS) and an internal HR database.

The Office has taken a number of steps that we believe will enhance the work engagement score when it is next measured in late 2004. For example, the overall results of the work environment survey were provided to staff. The executives in charge of each of our sectors discussed the results with their staff and underwent a feedback process to identify areas for improvement within each of our operating units. Other initiatives, such as the launching of a leadership development program, will begin later in 2003.

D. Our Finances:
We are financially and operationally accountable and transparent

We strive to maximize the return on the taxpayer's investment by conducting our work as efficiently as possible. We also adhere to high standards of financial transparency and accountability.

As the watchdog of government performance for the Legislature and the public, we understand the importance not only of our Office operating efficiently, but also of it being seen to be operating efficiently. We strive to set a good example by being transparent in our performance and by having our financial statements independently assessed.

Objective 1 - Our work is conducted efficiently and within budget

Strategy 1 – Minimizing the amount of administration as a percentage of total resources

To meet our goal of becoming an exemplary organization, we must ensure that we provide strong support to our staff so that they are well equipped with the right knowledge, tools and resources to be high performing. We also recognize, however, that support activities such as payroll, human resources, IT support and administration are necessary, but should be kept to a minimum. Most of these costs are fixed. We strive therefore constantly to achieve a balance between these conflicting priorities of maximizing efficiency and maintaining a well-supported organization.

Key Measure #15	Target for 2002/03	Actual
Percentage of our resources (measured in dollars) devoted to audit support	28%	27%

This second measure we use is calculated as the percentage of total available audit hours, less vacation and other leave, divided into total available audit hours of operational staff. As administrative functions are streamlined, more time should be available for operational staff to perform their work.

Key Measure #16	Target for 2002/03	Actual
Percentage of audit hours of operational staff charged against annual available hours	75%	76%

Discussion of Our Finances

For 2002/03, our Office was authorized total appropriation and recoveries of $9.564 million. Total expenses for the year were $9.814 million, a variance of 2.6 percent.

In the same fiscal year, we received an increase in our appropriation to address several new challenges emerging from government initiatives. However, a number of these government initiatives did not proceed as quickly as anticipated, so we could not fully use much of this new funding.

In the late fall of 2002, the Finance and Government Services Committee decided to recommend to the Legislative Assembly that our appropriation for 2003/04 be reduced by 5%. The committee also advised our Office to expect a further reduction of 10% in 2004/05, but no further reduction in 2005/06. To avoid the drawbacks of building our workforce and then reducing it again over a short time, we took a more cautious approach in our recruiting. This resulted in some hiring lags.

Recoveries were also significantly higher than planned. Some staff who would have worked on projects in other lines of business were diverted to financial assurance work for which we charge fees. The result of these changes in our plans resulted in an unused appropriation of $691,000.

Revenue

We receive our revenue from an annual voted appropriation of the Legislative Assembly, which includes amounts for specific items such as salaries and benefits, rent, travel and other operating expenses. We also recover our costs for various assurance engagements carried out with public bodies, under an arrangement with the Minister of Finance.

During the year, these recoveries amounted to $2,008,000, which was $808,000 higher than planned. This resulted from requests made after the Estimates were published for our Office to retain several large audits that we had planned to turn over to private sector auditors.

Salaries and Benefits

Overall salary and benefit costs for the year were about equal to the budgeted amounts, but actual costs increased by about $500,000 (8%) over the prior year. This was due to an across-the-board increase in salaries and benefits at the beginning of the year that was allowed for all provincial employees, as well as to promotions and merit increases for staff, and a reduction in salary-related recoveries.

Professional Fees

Our Office uses the services of outside professionals to augment and support our assurance work. Services provided range from subject matter expertise in business related to our audit sectors, to financial attest auditing of selected public bodies. We also engage contractors to help us meet the requirements for delivering our audit of the public accounts to the Legislature in a timely manner.

Contract costs were 16% higher than planned in 2002/03, but were comparable to those in the prior year. This increase was due to the additional agency audits we performed, and to more contractor time we required for our public accounts audit work. We also carried out a review of ministry information technology systems in the fourth quarter of the year—work that was not originally planned for the year.

Office Expenses

Office expenses are incurred for a variety of items including office supplies, stationery and postage, research materials, professional fees and dues, training costs and course fees, and minor furniture and fixtures.

Our spending on general office expenses was lower than planned and less than for the prior year. We increased our investment in training by 40%, but this was offset by reductions in spending on other items that make up this category.

Travel

Staff are occasionally required to travel as part of their duties for conducting assurance engagements, as well as to attend learning events and meetings with legislative audit colleagues. During fiscal 2002/03, we spent $340,000 on travel, which was 25% more than planned and 14% higher than in the prior year. This increase was due in part to the greater amount of travel required as part of the changes to our work plan during the year (such as the Olympic bid review) and the work our Office did on the report: *How Healthy Are We: British Columbia's Report on Nationally Comparable Performance Indicators*. Our travel costs were also higher due to an increase in travel for training events and more meetings with national standard setting bodies.

Public Reports and Advertising

During fiscal 2002/03 we spent $65,000 to produce publications related to our public reports and for recruitment advertising. This was $8,000 less than originally planned.The variance was due mostly to the fact that we produced less reports than planned. However, costs were 44% higher than in the prior year, due in part to advertising in national publications for senior positions in the Office that was not planned.

Exhibit 11

Financial performance against budget
($ thousands)

	Fiscal 2003 Budget	Fiscal 2003 Actual	Variance	Fiscal 2004 Budget
Sources of Revenue				
Appropriation	$ 8,364	$ 8,364	$ 0	$ 7,901
Recoveries	1,200	2,008	(808)	1,900
Other Amounts	0	133	(133)	0
Total Revenue	$ 9,564	$10,505	$ (941)	$ 9,801
Expenses				
Total Salaries and Benefits	$ 7,186	$ 7,189	$ (3)	$ 7,091
Professional services	750	931	(181)	1,080
Building Occupancy Charges	439	435	4	430
Office Expenses	376	347	29	335
Travel	272	340	(68)	292
Capital Asset Amortization	193	200	(7)	200
Data and Voice	214	245	(31)	228
Grants	61	61	0	61
Public Reports	73	66	7	84
Total Expenses	$ 9,564	$ 9,814	$ (250)	$ 9,801
Unused Appropriation	$ 0	$ 691	$ (691)	$ 0

Office of the Auditor General of British Columbia: Analysis of Revenues and Expenses

	Actuals				Line Items as a Percent				Year-to-Year Comparisons in Line Items		
	2003 $	2002 $	2001 $	2000 $	2003 %	2002 %	2001 %	2000 %	Change from 02 to 03 %	Change from 01 to 02 %	Change from 00 to 01 %
Sources of Revenue					As a Percentage of Revenue						
Appropriation	8,364,000	7,817,000	6,743,000	6,088,190	79.62	79.63	79.87	82.14	7.0	15.9	-2.6%
Recoveries	2,008,013	1,787,687	1,699,867	1,699,867	19.11	18.21	20.13	17.86	12.3	5.2	13.0%
Other Amounts	133,331	212,287	0	0	1.27	2.16	—	—	-37.2	—	—
Total Revenue	10,505,344	9,816,974	8,442,867	8,427,866	100.00	100.00	100.00	100.00	7.0	16.3	0.2%
Expenses					As a % of Expenses						
Average FTE Usage	88.0	88.0	86.9	86.8							
Total Salaries and Benefits	7,189,458	6,753,076	5,944,947	6,088,190	73.3	73.2	72.0	74.1	6.5	13.6	-2.4
Professional Services	930,740	903,038	912,517	456,647	9.5	9.8	11.0	5.6	3.1	-1.0	99.8
Building Occupancy Charges	434,923	438,162	433,703	437,550	4.4	4.7	5.3	5.3	-0.7	1.0	-0.9
Office Expenses	346,914	408,114	286,402	298,276	3.5	4.4	3.5	3.6	-15.0	42.5	-4.0
Travel	340,457	298,412	258,445	269,921	3.5	3.2	3.1	3.3	14.1	15.5	-4.3
Capital Asset Amortization	200,457	197,030	190,107	291,137	2.0	2.1	2.3	3.5	1.7	3.6	-34.7
Data and Voice	244,757	130,428	145,560	163,547	2.5	1.4	1.8	2.0	87.7	-10.4	-11.0
Grants	61,000	61,000	57,000	57,000	0.6	0.7	0.7	0.7	0.0	7.0	0.0
Public Reports	65,415	42,142	31,286	152,499	0.7	0.5	0.4	1.9	55.2	34.7	-79.5
Total Expenses	9,814,121	9,231,402	8,259,967	8,214,767	100.0	100.0	100.0	100.0	6.3	11.8	0.6
Unused Appropriation					As a % of Appropriation						
	691,223	585,572	182,900	213,099	8.26	7.49	2.71	3.08	18.0	220.2	-14.2

Office of the Auditor General of British Columbia
Statement of Management Responsibility

We are responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

We have prepared the financial statements in accordance with Canadian generally accepted accounting principles.

We develop and maintain systems of internal control that give reasonable assurance that our Office has:

- Operated within its authorized limits;
- Safeguarded assets; and
- Kept complete and accurate financial records.

The independent auditors, Green Horwood Munro & Tuckey, Chartered Accountants, were appointed by Treasury Board, pursuant to Section 22 of the *Auditor General Act*, to audit the accounts of our Office for the fiscal year ended March 31, 2003, and to report the results of the audit to the Speaker of the Legislative Assembly. The report of the auditors outlines the scope of their audit and their opinion on our financial statements.

Wayne Strelioff
Auditor General

Peter Gregory
Executive Financial Officer

May 16, 2003

GREEN, HORWOOD, MUNRO & TUCKEY

CHARTERED ACCOUNTANTS

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JOSEPH M. WEICKER, C.G.A.

* Incorporated Professional

May 16, 2003

AUDITORS' REPORT

To the Speaker,
The Legislative Assembly
Province of British Columbia

We have audited the Statement of Financial Position of the Office of the Auditor General of British Columbia as at March 31, 2003 and the Statements of Operations and Changes in Net Assets for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of British Columbia as at March 31, 2003, and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Green, Horwood, Munro & Tuckey
CHARTERED ACCOUNTANTS

Office of the Auditor General of British Columbia
Statement of Financial Position

As at March 31	2003	2002
Assets		
Current Assets		
Advances Recoverable	$ 16,614	$ 12,961
Accounts Receivable	7,516	6,090
Work in Progress (Note 3)	658,449	570,600
Due from the Consolidated Revenue Fund	434,117	477,910
	1,116,696	1,067,561
Capital Assets (Note 7)	305,655	325,469
	$ 1,422,351	$ 1,393,030
Liabilities		
Accounts Payable	$ 330,008	$ 271,772
Workforce Adjustment (Note 6)	103,005	131,885
Accrued Leave (Note 5)	683,683	663,904
	1,116,696	1,067,561
Net Assets	$ 305,655	$ 325,469

Commitments (Note 8)

The accompanying notes are an integral part of the financial statements.

Approved by:

Wayne Strelioff
Auditor General

Peter Gregory
Executive Financial Officer

Office of the Auditor General of British Columbia
Statement of Operations

For the Year Ending March 31	2003 Planned	2003 Actual	2002 Actual
REVENUE			
Voted appropriation (Note 4)	$ 8,364,000	$ 8,364,000	$ 7,817,000
Recoveries from agencies	1,200,000	2,008,013	1,787,687
Other amounts (Note 5)	–	30,326	80,402
Other amounts (Note 6)	–	103,005	131,885
	9,564,000	10,505,344	9,816,974
EXPENSES			
Salaries	5,869,000	5,731,213	5,444,548
Employee benefits (Note 5)	1,317,000	1,458,245	1,308,528
Salaries and benefits	7,186,000	7,189,458	6,753,076
Professional services	750,000	930,740	903,038
Building occupancy charges	439,000	434,923	438,162
Office expenses	376,000	346,914	408,114
Travel	272,000	340,457	298,412
Data and voice communications	214,000	244,757	130,428
Capital assets amortization (Note 7)	193,000	200,457	197,030
Public reports	73,000	65,415	42,142
Grants	61,000	61,000	61,000
	9,564,000	9,814,121	9,231,402
Excess of Revenues Over Expenses	$ –	$ 691,223	$ 585,572
Unused Appropriation	$ –	$ 691,223	$ 585,572

The accompanying notes are an integral part of the financial statements.

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets

For the Year Ending March 31	2003		2002
	Budget	Actual	Actual
Net Assets – beginning of year		$ 325,469	$ 320,620
Appropriations for purchase of capital assets (Note 4)	$190,000	180,643	201,879
Capital asset amortization	(193,000)	(200,457)	(197,030)
Increase/(Decrease) in Net Assets		(19,815)	4,849
Net Assets – end of year		$ 305,655	$ 325,469

The accompanying notes are an integral part of the financial statements.

1. Authority

The Auditor General is an Officer of the Legislature of British Columbia, independent of the Government, with a mandate to meet the requirements of the *Auditor General Act*. This mandate is to provide independent assessments and advice that enhance government accountability and performance.

Funding for the operation of the Office of the Auditor General (hereafter the "Office") is provided through a voted appropriation (Vote 2) and by billing government agencies for assurance and related services they receive, pursuant to a Memorandum of Understanding with the Minister of Finance. All payments are made from, and funds are deposited in, the Province's Consolidated Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a) Accrual basis

The financial statements are accounted for on an accrual basis.

b) Gross basis

Revenue, including recoveries from government agencies, and expenses, are recorded on a gross basis.

c) Revenue

Revenue is recognized when related costs are incurred.

d) Expense

Expense is recognized when goods and services are acquired or a liability is incurred.

e) Net Assets

Our net assets represents the accumulated cost of our capital assets less accumulated amortization.

f) Statement of Cash Flows

A Statement of Cash Flows has not been prepared, as it would provide no additional useful information.

2. Significant Accounting Policies (continued)

g) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of capital assets, as follows:

Computer hardware and software	3 years
Furniture and equipment	5 years
Tenant improvements	5 years

3. Work in Progress

For the year ending March 31	2003	2002
Assurance engagements performed by the Office	$501,949	$ 455,400
Assurance engagements performed by authorized agents of the Office	156,500	115,200
Totals	$ 658,449	$ 570,600

4. Appropriations

Included in the government's estimates and approved by the Legislative Assembly are the appropriations for our office as voted through the *Supply Act*. The Office receives approval to spend funds through separate operating and capital appropriations. The unused appropriations cannot be used by the Office in subsequent fiscal years.

For the year ending March 31	2003			2002
	Operating	Capital	Total	Total
Appropriations	$ 8,364,000	$ 190,000	$ 8,554,000	$ 8,028,000
Recoveries	2,008,013	–	2,008,013	1,787,687
Other amounts (Note 5)	30,326	–	30,326	80,402
Other Amounts (Note 6)	103,005	–	103,005	131,885
Gross funds available	10,505,344	190,000	10,695,344	10,027,974
Operating expenses	(9,814,121)	–	(9,814,121)	(9,231,401)
Capital acquisitions	–	(180,643)	(180,643)	(201,879)
Unused appropriations	$ 691,223	$ 9,357	$ 700,580	$ 594,694

5. Employee Benefits and Leave Liability

Accumulated liability with respect to vacation and other leave entitlements due to our employees is $683,683 as at March 31, 2003 (2002 – $663,904). Prior to the fiscal year ending March 31, 2002, the Office fully funded this amount by transferring funds to the government's leave liability account to cover future payment of these entitlements. The government now funds these costs centrally. The amount funded for the fiscal year ending March 31, 2003 was $30,326 (2002 - $80,402)

6. Workforce Adjustment Liability

During the year, the Office entered into several early retirement agreements with employees, as part of a government-wide workforce adjustment strategy. The liability and the amount funded with respect to these agreements is $103,005 as at March 31, 2003 (2002 - $131,885). The government funds these costs centrally.

7. Capital Assets

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Hardware and Software	$ 724,995	$ (441,845)	$ 283,150	$ 296,094
Furniture and Equipment	91,502	(68,997)	22,505	29,375
Tenant Improvements	778,563	(778,563)	–	–
	$ 1,595,060	$ (1,289,405)	$ 305,655	$ 325,469

8. Commitments

The Office has a leasehold commitment with the British Columbia Buildings Corporation for building occupancy costs. This lease has a 10 year term to October 2004. The future minimum lease payments for office space for the next two fiscal years are:

2003/2004	$ 427,272
2004/2005	249,242
	$ 676,514

9. Pension and Retirement Benefits

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The Public Service Pension Plan is a multi-employer, defined benefit plan and is available to substantially all of the Office's employees. On behalf of employers, the British Columbia Pension Corporation administers the Plan, including payment of pension benefits to employees to whom the Act applies. The Public Service Pension Plan's management is based on a joint trusteeship whereby the risks and benefits are shared between the employees and employers.

An interim actuarial valuation report brought forward results to March 31, 2002, using 1999 assumptions and also updating actual asset values, general wage increases and the decrease in employer contribution rates effective April 1, 2002. On that basis, the updated results to March 31, 2001 indicated a surplus.

The Office also contributes through the Provincial Government payroll system for specific termination benefits as provided for under collective agreements and conditions of employment. The costs of these employee future benefits are recognized as an expense in the year that contributions are paid.

10. Comparative Figures

Certain comparative figures have been restated to conform with the financial presentation adopted in the current year.

Appendices

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

Reports Issued Related to the Government's Financial Statements

Adopting Best Practices in Government Financial Statements

We examined the government's implementation of Canada's Generally Accepted Accounting Principles (GAAP), its progress towards adopting best practices for financial reporting, and its control over a major computerized operating system. Suggestions are included in the report on how to best address these issues.

In today's world, where public trust in corporate business and the institutions of government is low, it is increasingly important for these entities to adopt best practices in financial accounting and reporting. One way to do this is through following GAAP. At present, the government in British Columbia follows most of the GAAP requirements. However, the Summary Financial Statements do not yet fully account for the financial affairs and resources for which the government is responsible.

Several other complex transactions have impacted the government's financial results. These include the government's investment loss in Skeena Cellulose, its gains and losses due to the restructuring of its pension plans, programs and work force, its increased equalization revenue, and the federal government's miscalculation of mutual fund tax credits.

As part of this work, we also examined one of the government's largest computer systems, which is operated by the Ministry of Management Services and supports many of the government's financial and operational systems. To minimize the risks associated with such an important system, a high level of security and control is required.

Our review found that while most procedures were well planned and in place, actual practice did not always follow the procedures. This situation increases the risk of a security breach.

Monitoring the Government's Finances

We examined the government's explanation and analysis of its finances and concluded that simpler, more complete information is needed to help legislators and citizens interpret this data.

Since the government has not yet fully implemented GAAP in its financial statements and annual reports, legislators and the public must sort through complicated notes and schedules to determine the full financial story. In its financial statements, the government also does not yet report on the full financial results of its education and health programs.

To remedy this situation, the government should do what other large, complex organizations do: use the management discussion and analysis part of its annual financial report—the public accounts – to tell its financial story in a complete and understandable manner.

By law, the government must implement GAAP no later than April 2004. With this change and other improvements to government management and accountability practices underway, the government can focus on telling its financial story completely and clearly.

Reports Issued Related to the Management of Risks

Managing Contaminated Sites on Provincial Lands

We looked at government's management of contaminated sites and concluded that the public should be able to access better information about the risks and problems associated with them. As well, we came up with several recommendations to improve the management of contaminated sites.

Contaminated sites are a legacy of our past, when there was little awareness of their environmental and health impacts and the economy operated with fewer regulations. Through its own operations and by inheriting sites from the private sector, the government has become responsible for managing an extensive inventory of contaminated sites. These can pose serious risks to the environment and to human health if not managed properly. As well, such sites can impose significant economic and financial costs.

Although two of the eight organizations we examined have their contaminated sites programs running reasonably well, government does not manage its own contaminated sites adequately. Major changes are needed. To ensure the public's resources are

focused on the highest priority sites, better information about the extent of the problem and the seriousness of the risks is required. Legislators do not yet receive comprehensive information about how well government is fulfilling its stewardship role concerning contaminated sites.

The report also addresses the financial risks associated with mining site restoration and with emerging risks associated with the management of naturally occurring radioactive materials in the oil and gas sector.

A Review of Financial Management Issues in the Office of the Police Complaint Commissioner

The Office of the Police Complaint Commissioner is mandated to oversee complaints about police conduct and to ensure that investigations are thorough and their outcomes fair. It started operations in 1998. As a statutory officer, the Police Complaint Commissioner reports directly to the Legislative Assembly.

We undertook our review after allegations of possible financial improprieties had come to our attention and were being raised in public. The report focused on these financial management issues rather than on the commissioner's operations.

After reviewing the Police Complaint Commissioner's financial transactions, we found no evidence of improper motive or purpose. However, we did find that the commissioner failed to put in place sound financial management and accountability practices, and that the financial affairs of the office were not managed adequately.

The report notes that important performance standards and practices, which all public officials should follow, were not adhered to by the Police Complaint Commissioner. Among these, the most serious pertained to contract management and related spending authorities, as failure to follow these practices contravenes the Financial Administration Act. The review also found that the commissioner's annual reports didn't adequately disclose how financial resources were used.

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Until two years ago, the provincial government managed all public sector pension plans. In July 1999, new legislation resulted in joint management agreements between government and other stakeholders, including the unions representing the plan members. While the change lessened government's control over the plans, government still continues to be a major financial contributor. It also shares responsibility with the other employers for half of any unfunded liability.

Our review assessed whether the government was aware of the risks associated with the new pension plan arrangements, and whether it was managing those risks adequately. We concluded that the government did adequately identify and manage the risks related to the devolution of the plans. As well, we believe that the government achieved what it wanted to by entering into the new arrangements.

At the same time, however, we found that better government oversight of the plans is needed. Two areas that need work are the ongoing monitoring of the plans and public reporting. The government should strengthen its monitoring capacity and ensure it has access to all the information it needs to fulfill its oversight responsibilities. A strong working relationship between the government and other plan partners in dealing with these and other pension plan governance issues is also important.

Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games

In the summer of 2002, Vancouver was selected as one of the bid finalists to host the 2010 Winter Olympic and Paralympic Winter Games. As winning the bid could place a significant demand on the financial resources of the province, the Office decided to examine the financial implications of this decision. Concurrently, the Vancouver 2010 Bid Corporation and senior government officials asked the Office to conduct a review of their work.

In our review of the work of both the Bid Corporation and the Province, we examined the processes used to develop the estimates, the assumptions underlying those estimates, and the plans for managing the risks associated with the planning and staging of the Games. We did not examine the financial operations of the Bid Corporation or the Government of Canada's commitments to the Games bid.

We concluded that both the Vancouver 2010 Bid Corporation and the provincial government have done a good job of estimating the likely cost of the 2010 Games, and the related expenditures. However, caution should be exercised, since these estimates are for an event seven years away. As the Games will not automatically stay within estimates, keeping costs in line requires first-class management from the outset. Contingency amounts must be watched carefully, and the predicted revenues and economic impacts will only come about through well-funded and well-managed marketing of both the Games and British Columbia as a whole.

Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service

We conducted a review of British Columbia's public service and concluded that a better work environment would improve public services and ensure they meet the expectations of British Columbians.

Citizens want government services to be delivered effectively and efficiently by competent, courteous staff. Good performance, and customer satisfaction are linked to a healthy work environment. To measure this performance we sent a survey to over 6,000 provincial government employees in the province. We received a 74% response rate to the survey, which examined four key factors in building a strong work environment: leadership, work satisfaction, organizational culture, and performance management.

We concluded that improving the leadership of the public service will provide the best opportunity for government to strengthen the work environment and to create a truly citizen-centred culture. Currently, because employees in the public service lack trust and confidence in their leaders, they are only moderately

engaged in their work. This lack of trust has also created a culture that discourages employees from striving to improve the services they provide British Columbians.

The report recommends that the provincial government develop and implement a strategy for managing its human resources. It also stresses the importance of developing a comprehensive plan for managing the changes resulting from recent budget and staff reductions.

Other Reports Issued During the Fiscal Year

Building Better Reports: Our Review of the 2001/02 Reports of Government

After reviewing the annual reports of 40 government organizations, we suggested that some improvements could be made in terms of performance reporting.

Currently, government's annual reports are at the early stages of reflecting good performance reporting principles. They do not yet allow readers to fully appreciate or assess government's performance, a situation that may be partly due to the circumstances under which these reports were created. The 2001/02 annual reports were produced during a year of significant government restructuring and reorganization and at a time when the principles that guide performance reporting were still evolving.

The Auditor General recognizes the importance of reflecting good performance reporting principles in annual reports. Along with recommending the government moves swiftly towards this goal, the Office has promised to do the same.

In response to this report, the government has committed to continuously enhance its public performance reporting, and it will continue to work with the Auditor General to establish performance reporting principles that will guide good public reporting in British Columbia.

Follow-Up of Performance Reports

During the year, we issued two reports, one in June 2002 and one in January 2003. These summarized 14 follow-up reviews that we carried out during the year.

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

Our June 2002 summary report contains the results of follow-up work on the following 9 performance reports issued between 1996 and 2001:

1. *Fostering a Safe Learning Environment: How the British Columbia School System is Doing* (2000/01: Report 1)
2. *Earthquake Preparedness* (1996/97: Report 1)
3. *Social Housing: The Governance of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation; and The Management of Social Housing Subsidies* (1999/00: Report 8)
4. *Management Consulting Engagements in Government* (2000/01: Report 4)
5. *Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use* (1998/99: Report 2)
6. *Ministry of Forests/Managing the Woodlot Licence Program* (1999/00: Report 4)
7. *Collection of Overdue Accounts Receivable* (1998/99: Report 3)
8. *Report on the Preparedness of the Government of British Columbia in Dealing with the Year 2000 Problem* (1999/00: Report 7)
9. *British Columbia Ferry Corporation: Fleet and Terminal Management; and Operational Safety* (1995/96: Report 2)

We were pleased that in these 9 reports, management of the organizations involved has accepted our recommendations and has taken action to implement 91% of them.

Our January 2003 summary report contains the follow-up reviews of these reports issued between 1999 and 2001:

1. *Maintaining Human Capital in the BC Public Service: The Role of Training and Development* (1999/00: Report 3)
2. *Managing Interface Fire Risks* (2001/02: Report 1)
3. *Transportation in Vancouver: A Review of Agreements Between the Province and Translink, and of Translink's Governance Structure* (2001/02: Report 2)
4. *Monitoring Credit Unions and Trust Companies in British Columbia* (2000/01: Report 5)
5. *Protecting Drinking-Water Sources* (1998/99: Report 5)

For four of the reports we reviewed, we concluded that the information reported was presented fairly. We did not carry out a follow-up review of the fifth report, *Protecting Drinking-Water Sources*, as substantial changes were made in government policy regarding drinking-water sources, and therefore we were unable to perform our normal follow-up procedures. We are planning to carry out a new audit on this topic in 2004.

We were pleased that management of these organizations has accepted our recommendations, and has taken action to implement 97% of them.

Special Report–Response to a Request Contained in a Ministerial Statement by the Minister of Competition, Science and Enterprise to the Legislative Assembly on May 14, 2002 (July 2002)

On May 14, 2002, the Minister of Competition, Science and Enterprise, in a Ministerial Statement to the Legislative Assembly, requested that the Office review in detail the circumstances under which the previous government amended an agreement with Working Opportunity Fund (EVCC) Ltd. (WOF), and that the Office report the results of the review to the Legislative Assembly.

The Minister expressed concerns about both governance and risk management. In addition to asking whether, overall, the principles of good governance were adhered to, he asked if due process was followed, and if the amended agreement was signed against the considerable advice of the public service. Finally, the minister asked whether the principles of good risk management were adhered to and, in particular, if the taxpayers of British Columbia were knowingly put at risk.

After a preliminary examination of these questions, we concluded that proper protocol had been met in the existing agreement and that a more detailed review of this topic was not needed.

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

Summaries of Reports In-Progress on the Management of Risks at March 31, 2003

Education Sector:

- Changes, Choices and Challenges: Building Capacity for Continuous Improvement in the K-12 Public Education System in British Columbia – This project will assess whether the BC public school system is prepared to manage and support continuous education improvement and demonstrate accountability for results.

Finance & Transportation Sector:

- A Review of the Governance of Investments, Insurance Corporation of British Columbia – The purpose of this review is to ensure that ICBC has an appropriate governance structure in place that allows its investments to be managed effectively, and that the investments are in fact well-managed.

Health Sector:

- Ministry of Health Services' Alternative Payments Program – This review will assess the administrative effectiveness of the current program, identify significant management risks and determine whether the ministry has mitigated these risks.
- The Diabetes Management Project – This audit will examine how well British Columbia's health ministries and health authorities are preventing and managing diabetes at each of its stages: primary prevention, early detection, and diabetes management.
- Healthy Workplaces for British Columbia's Healthcare Workers – We have begun an audit to assess how well the health authorities are managing the workplace to ensure a healthy work environment for healthcare workers in terms of a safe and healthy physical environment, a healthy psychosocial environment, and healthy lifestyle practices.

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

Natural Resources Sector:

- The Province's Role in Sustaining Wild Salmon in B.C. – We are planning a coordinated audit project with the federal Office of the Auditor General and New Brunswick that will assess whether the government has effective programs to sustain wild salmon stocks. Each of the three audit offices will report on its respective projects in June 2004.
- Sustainability in British Columbia – We are planning to conduct a study that will look at how the government is implementing concepts of sustainability or sustainable development in British Columbia. The province's aquaculture strategy will be assessed as part of this study. Reporting of the results of the study could be as early as the spring of 2004.

Protection of Persons Sector:

- Audit of the Government's Review of Eligibility for Disability Benefits – The purpose of this audit is to assess how well the government carried out the review of eligibility for payment of benefits to persons with disabilities.
- Management of Changes in the Child Protection Program – The purpose of this audit is to assess whether the Ministry of Children and Family Development is taking adequate steps to ensure that front-line workers have the capacity needed to work effectively with children, families and communities to keep children at risk of abuse and neglect safe during a period of significant change.
- Managing for Results in British Columbia – This study will examine how the government is doing in its efforts to manage for results, identifying any challenges or impediments that may have been encountered. Based on our study of BC practices and research in other jurisdictions, we will highlight the best practices in managing for results, including lessons learned to date.

Appendix A: Summaries of Reports Issued and In-Progress in Fiscal 2002/03

General Government:

- Audit of the Oracle Financials A/P Module in the Corporate Accounting System – We have begun an audit to assess whether the government can rely on the controls in place and around the accounts payable/purchases module in the Corporate Accounting System (CAS). The audit will determine whether the expenses recorded are complete, accurate and authorized.

Other:

- *Follow-Up Performance Report* – This report will show the results of the Office's follow-up work on the following six performance reports issued between 1998 and 2002:
  - *Information Use by the Ministry of Health in Resource Allocation Decisions for the Regional Health Care System* (2001/02: Report 6)
  - *Management of the Information Technology Portfolio in the Ministry of Attorney General* (2001/02: Report 5)
  - *Managing the Cost of Drug Therapies and Fostering Appropriate Drug Use, Ministry of Health and Ministry Responsible for Seniors* (1998/99: Report 2)
  - *Management Consulting Engagements in Government* (2000/01: Report 4)
  - *Building a Strong Work Environment in British Columbia's Public Service: A Key to Delivering Quality Service* (2002/03: Report 1)
  - *Fostering a Safe Learning Environment: How the BC Public School System is Doing* (2000/01: Report 1)

Appendix B: Government Entities Trust Funds and Their Auditors

Government Organizations, Enterprises, Pension Plans, Investments Funds and Other Agencies—Their Inclusion in, or Exclusion from, the Province's 2001/02 Financial Statements and Their Auditors

Entities Included in the Summary Financial Statements

	Audited by	
	Auditor General	Authorized Auditors
552513 British Columbia Ltd.	✓	
B.C. Community Financial Services Corporation		✓
B.C. Festival of the Arts Society[1]		✓
B.C. Games Society		✓
B.C. Pavilion Corporation		✓
BC Transportation Financing Authority	✓	
Highway Constructors Ltd.	✓	
BCIF Management Ltd.		✓
British Columbia Arts Council[2]		
British Columbia Assessment Authority	✓	
British Columbia Buildings Corporation		✓
British Columbia Enterprise Corporation	✓	
British Columbia Ferry Corporation		✓
British Columbia Heritage Trust		✓
British Columbia Housing Management Commission		✓
British Columbia Hydro and Power Authority		✓
British Columbia Immigrant Investment Fund Ltd.	✓	
British Columbia Liquor Distribution Branch[3]	✓	
British Columbia Lottery Corporation		✓
British Columbia Railway Company		✓
British Columbia Securities Commission	✓	
British Columbia Trade Development Corporation		✓

[1] The entity's 2002 financial statements may be the last financial statements for this organization

[2] The entity's financial statements were unaudited

[3] Branch of Ministry of Competition, Science and Enterprise

Appendix B: Government Entities Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
British Columbia Transit		✓
Canadian Blood Services		✓
Columbia Basin Trust		✓
Columbia Power Corporation	✓	
Arrow Lakes Power Company	✓	
Columbia Basin Power Company		✓
Power Project Planning Joint Venture	✓	
Creston Valley Wildlife Management Authority Trust Fund	✓	
Discovery Enterprises Inc.		✓
First Peoples' Heritage, Language and Cultural Council		✓
Homeowner Protection Office	✓	
Industry Training and Apprenticeship Commission	✓	
Insurance Corporation of British Columbia		✓
Interim Authority for Community Living	✓	
Land and Water British Columbia Inc.	✓	
Legal Services Society	✓	
Oil and Gas Commission	✓	
Okanagan Valley Tree Fruit Authority		✓
Organized Crime Agency of British Columbia Society		✓
Pacific National Exhibition		✓
Partnerships British Columbia	✓	
Private Post-Secondary Education Commission		✓
Provincial Capital Commission	✓	
Provincial Rental Housing Corporation		✓
Public Guardian and Trustee of British Columbia		
Estates and Trusts Administered	✓	
Operating Account	✓	
Rapid Transit Project 2000 Ltd.		✓

Appendix B: Government Entities Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
Science Council of British Columbia		✓
Tourism British Columbia	✓	
Vancouver Convention Centre Expansion Project Ltd.	✓	
Vancouver Trade and Convention Centre Authority	✓	
Organizations Not Included in the Summary Financial Statements		
British Columbia Institute of Technology	✓	
British Columbia Investment Management Corporation	✓	
British Columbia Pension Corporation		✓
Fraser Health Authority	✓	
Royal Roads University	✓	
Simon Fraser University	✓	
The University of British Columbia	✓	
University of Northern British Columbia	✓	
University of Victoria	✓	
University Foundations		
Foundation for the University of Victoria	✓	
Royal Roads University Foundation	✓	
Simon Fraser University Foundation	✓	
The University of British Columbia Foundation		✓
University of Northern British Columbia Foundation	✓	
Other Education and Health Sector Entities		
Colleges and Advanced Education Institutes (21 entities)		✓
Health Authorities (5 entities)		✓
Health Care Organizations (8 entities)		✓
School Districts (60 entities)		✓
Pacific Technology Resources Society	✓	
Provincial Employees Community Services Fund	✓	

Appendix B: Government Entities Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
Pension Plans, Investment Funds and Other Agencies Disclosed in the Summary Financial Statements		
BC Rail Ltd. Pension Plan		✓
British Columbia Hydro and Power Authority Pension Plan		✓
British Columbia Public Service Long Term Disability Plan	✓	
College Pension Plan		✓
Credit Union Deposit Insurance Corporation of British Columbia		✓
Members of the Legislative Assembly Superannuation Account	✓	
Municipal Pension Plan		✓
Pooled Investment Portfolios		
Active Canadian Equity Fund	✓	
Active U. S. Equity Fund	✓	
Asian Equity Fund	✓	
British Columbia Focus Fund	✓	
Canadian Money Market Fund ST1	✓	
Canadian Money Market Fund ST2	✓	
Currency Overlay Fund	✓	
U. S. Dollar Money Market Fund ST3	✓	
Canadian Corporate Bond Fund	✓	
Construction Mortgage Fund	✓	
Enhanced Canadian Equity Fund	✓	
European Equity Derivatives Fund	✓	
European Equity Fund	✓	
Fixed Term Mortgage Fund	✓	
Indexed Canadian Equity Fund	✓	
Indexed Government Bond Fund	✓	
International Equity Fund	✓	
Long Term Bond Fund	✓	

Appendix B: Government Entities Trust Funds and Their Auditors

	Audited by	
	Auditor General	Authorized Auditors
North American Equity Fund	✓	
Pension Bond Fund	✓	
Private Placement Fund 1995	✓	
Private Placement Fund 1996	✓	
Private Placement Fund 1997	✓	
Private Placement Fund 1998	✓	
Private Placement Fund 1999	✓	
Private Placement Fund 1999	✓	
Private Placement Fund 2000	✓	
Private Placement Fund 2001	✓	
Private Placement Fund 2002	✓	
Realpool International Fund 1999	✓	
Realpool International Fund 2001	✓	
Realpool International Fund 2002	✓	
Realpool Investment Fund	✓	
S & P 500 Index Equity Fund	✓	
Short Term Bond Fund	✓	
Specialty Mortgage Fund	✓	
U.S. Index Enhanced Equity Fund	✓	
U.S. Value Index Equity Fund	✓	
Public Service Pension Plan		✓
Teachers' Pension Plan		✓
Workers' Compensation Board of British Columbia	✓	
Workers' Compensation Board Superannuation Plan		✓

Appendix C:
Summary of our Annual Report Self-Assessment

Recognizing our role in setting an example for good public performance reporting, we subjected our annual report to the same assessment we apply to the annual service plan reports of ministries and government organizations. We did so knowing that with transparency comes pressure to improve.

Approach: We based our assessment on a set of reporting principles for the BC public sector that were developed and agreed upon with the government. The principles closely match the national performance reporting principles established by the CCAF-FCVI Inc. Consistent with last year, we followed a learning model approach that includes four stages of development that mark an organization's progress in incorporating the principles of good performance reporting.[1] Our assessment addressed seven of the eight principles.[2]

The assessment was conducted by two staff, experienced in applying the assessment model to the annual reports of government organizations. To add greater rigour to the process, we asked an external reviewer from another legislative audit office to assist us.

Conclusion: The report is at the In Process level for most of the principles, with one in the Fundamentals in Place phase and one in the Start-up phase. Overall, this reflects a modest improvement over the previous year (Exhibit 12).

- In explaining the public purpose served, the Office has described its role in public sector accountability. The report also includes a well-developed description of how the Office ensures its values are integrated into the way it conducts its business. Future reports should demonstrate how goals and objectives relate to the Office's legislated mandate.
- In linking goals with results, the report links its results for 2002/03 with both its 2002/03 and 2003/04 three-year service plans. The Office did this because it believes the structure in the more recent service plan better explains the organization's strategic linkages than did the original 2002/03 service plan. For the same reason, the annual report did not fully report its performance in relation to planned performance.

[1] For more information about our methodology, see *Building Better Reports: Our Methodology for Assessing the Annual Service Plan Reports of Government*.

[2] The principle omitted relates primarily to the reliability of the report. We omitted it from our assessment work this year because of the extra resources required to conclude on this particular principle.

Appendix C:
Summary of our Annual Report Self-Assessment

Exhibit 12

Self-Assessment of the Annual Reports of the Auditor General of BC

Stage of Development	Performance Reporting Principles						
	Public Purpose Served	Linking Goals and Results	Few, Critical Aspects	Risk and Capacity	Link Resources, Strategies and Results	Comparative Information	Disclose Key Reporting Judgements
Fully Incorporated							
Fundamentals in place	◆						
In process		◆●	◆	◆●	◆		◆
Start-up phase			●		●	◆●	●

Self-Assessment Year:

● 2001/2002 ◆ 2002/2003

- The report does focus on a few critical aspects of performance by highlighting objectives important to the Office achieving its vision. While the performance measures chosen have the potential of becoming meaningful gauges of the Office's success, the Office needs to do a better job at defining its core measures. This would help the Office report on its performance in a complete and concise way.
- On the principle of presenting results in the context of risk and capacity, the report contains ample information about one key area of organizational capacity—human capital. However, there was insufficient information about other areas of organizational capacity. Also lacking was a risk assessment of the significant risks facing the Office and their related impacts.

Appendix C:
Summary of our Annual Report Self-Assessment

- The report attempts to link resources to the related results by explaining how the Office's resources have been allocated to each business area. It also provides basic financial accountability information, including financial statements and comparisons of budget to actual revenues and expenditures. In future, the report should better explain how the resources link to the results achieved.
- The report presents some historical financial information, but not other performance information. As a result, there is insufficient comparative information for the reader to understand how well the organization is performing in light of long-term trends or relative to similar organizations.
- In disclosing key reporting judgements, the Office has explained the basis for selecting measures, discussed changes in the way performance is measured and provided some rationale for choosing the performance measures. However, some aspects of this principle—such as including information in the report about the data sources used, the reliability or limitations of the data and management representation over the information—were not adequately reported.

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